

**Regulation, Audit and Accounts Committee**

16 September 2016 – At a meeting of the Committee held at 10.30 a.m. at County Hall, Chichester.

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

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

Apologies for absence were received from Ms James.

\*Mr Bradbury left at 12.25 p.m.

**Declaration of Interest**

30. Mrs Millson declared a personal interest for the Internal Audit Report item as a member of the PropCo Panel.

31. Mr Lanzer declared a personal interest for the External Audit Reports and the Financial Statements 2015/16 Report as a deferred member of the Local Government Pension Scheme.

32. Ms Eberhart (Director of Finance) declared a personal interest for the External Audit Reports items as her daughter was employed at Ernst & Young (EY).

**Minutes**

33. The Chairman updated the Committee on 3SC and confirmed that Louise Goldsmith was due to attend a 3SC meeting; a briefing would be circulated to the Committee following this meeting.

34. The Chairman also confirmed that she had spoken with the Cabinet Member for Residents' Services and arranged for an update on the Waste Strategy to come to the November meeting when there would be more information to present.

35. The Committee welcomed the responses that had been virtually circulated the day before by officers, but requested that in future they are sent out in good time for the meeting.

36. Resolved – That the minutes of the meeting of the Committee held on 27 June 2016 be approved as a correct record and that they be signed by the Chairman.

**Internal Audit Report**

37. The Committee considered a report by the Director of Finance and the Head of Internal Audit (copy appended to the signed minutes).

38. The report was introduced by Gavin Jones, Head of Internal Audit, who informed the Committee that there were outstanding actions for the Risk Management and Estates Management audit recommendations. Verbal updates were given for Appendix A; 4 questionnaires had been received for customer satisfaction giving a 75% measure. This was expected to rise when more questionnaires were received. The composite daily rate measure would be calculated when the inflationary uplifts to all salaries had taken effect.

39. In response to members' questions on the proposals for a peer review of the self-assessment by an Authority, Mr Jones explained that standards required an external review of the internal audit service every 5 years, and the County Council was currently in year 4. Preliminary research indicated an externally commissioned review would incur a charge of approximately £5000 and so the peer review had been proposed as an alternative. Orbis had been contacted and were provisionally happy to perform the review on a reciprocal basis; with the County Council performing a review or some consultancy work.

40. In response to members' concerns on the slippage within the Risk Management recommendations, Natasha Edmunds, Director of Workforce, Organisational Development & Delivery Support, confirmed that risk was high on the new Chief Executive's radar. He would be raising the profile on risk and holding officers to account.

41. Resolved – That the Committee:

- (1) Notes the report.
- (2) Endorses the approach taken to conform to the Public Sector Internal Audit Standards requirements for an external review of Internal Audit.
- (3) Raises concerns on the lack of progress in embedding risk management.
- (4) Supports the Chairman in writing to the Chief Executive to raise the Committee's concern on risk and invite him to a future meeting.

### **External Audit Reports**

42. The Committee considered reports by the External Auditor, EY (copies appended to the signed minutes).

43. The Cabinet Member for Finance began the item by reporting on the good working relationship the Council finance team had with the EY audit team and hoped that the 2015/16 audit would be finalised soon and signed off by EY.

44. The West Sussex County Council Draft Audit Results Report was introduced by Mr King, EY, who explained that the work was not complete and so could not be signed off yet. EY were not expecting to find issues before sign off, but noted it was a possibility. The Committee were also informed that 2017/18 would see deadlines for publication of audited accounts move forwards and completion required by 31 July rather than 30 September.

45. Mr King highlighted the corrected audit differences that related to the revaluing of the Tangmere Solar Farm assets and the correct recording of grant receipts. A related party transactions had been declared, but not disclosed in the financial statements due to materiality grounds. As the transaction was material to the other party, EY asked for it to be disclosed in the revised financial statements.

46. In response to members' questions on the incomplete work, Mr King explained that there had been resource issues within EY which they were looking to improve. Recruitment was being worked on and a Graduate Programme was helping.

47. In response to members' questions on the tender for the Refuse Derived Fuel contact, Ms Eberhart explained that this was something EY had identified and gave assurance to the committee that it would comply with necessary regulations. Ms Eberhart resolved to investigate if this process had started and report back to the Committee.

48. In response to members' questions on achieving the savings target, Mr King considered that the level of savings outlined were in the upper end compared to other authorities he was familiar with. Mr King confirmed that another authority he was aware of was in a similarly challenging situation. Mr Hunt was confident that the identified savings would achieve a 'green' rating on achievability.

49. The West Sussex Pension Fund Draft Audit Results Report was introduced by Mr King, EY, who confirmed that there had been 2 adjustments to the accounts. Mr King praised the good working relationship with County Council Officers.

50. In response to members' questions on the preparations needed for the Pension Fund pooling arrangements, Ms Eberhart confirmed that there would still be pension fund accounts as pooling only referred to investments, not a combined ACCESS fund. Mr King confirmed that the accounts would always be subject to audit, but the approach under pooling may be different.

51. Resolved – That the Committee:

- (1) Approves the letters of management representation.
- (2) Welcomes the collaborative working between County Council officers and EY.

### **Financial Statements 2015/16**

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

53. The report was introduced by Vicky Chuter, Chief Accountant, who reported the misstatements in the financial statements, as outlined previously by Mr King.

54. In response to members' questions on the related party transaction reporting, Mrs Chuter confirmed that the officer had made the declaration, but not the size of the transaction as this was not requested. EY confirmed that the transactions should be declared if they are material to either party. This would be monitored going forwards.

55. In response to members' questions on guidance following the EU Referendum outcome, Mrs Chuter confirmed that no guidance had come from the Government. It was hoped that details would become clearer as the process continues. It was suggested that there may be an impact on valuations, interest rates and therefore the Treasury Management Strategy.

56. In response to members' questions on the achievement of targets for savings, Ms Eberhart confirmed that a percentage of targets had moved to green since the publication of the report. A robust savings tracking process had been installed, but achieving the targets remained a challenge.

57. In response to members' questions on the officer banding remuneration, Mrs Chuter confirmed that the figures included redundancy figures and did not reflect the number of current active salaries, but rather the total number of officers within that salary banding throughout the financial year. This wording on future Financial Statements could be improved to make this clearer. Mrs Edmunds resolved to investigate any salaries that were over £100,000 and send details to the Committee.

58. Resolved – That the Committee approves the Statement of Accounts for 2015/16 for the West Sussex County Council and the West Sussex Pension Fund.

### **Treasury Management Compliance Report – First Quarter 2016-17**

59. The Committee considered a report by the Director of Finance (copy appended to the signed minutes).

60. The report was introduced by Mrs Chuter, who confirmed that the outcome of the EU Referendum had led to a heightened level of volatility in the financial markets. Professional advisors continued to support the counterparty limits within the existing Treasury Management Strategy.

61. Mrs Chuter informed of a breach in policy due to a local authority repaying a three year investment into an old County Council bank account. The breach had been rectified the following day and the local authority had accepted liability and would cover any costs due to going overdrawn with the current banking provider due to the breach.

62. In response to members' questions on the reduction in the base rate and the implications of this on income targets, Mrs Chuter confirmed that officers were mindful of this and considered upcoming opportunities that minimised risk but retained good returns. The Treasury Management Panel would look at alternative investment options.

63. In response to members' questions on the impact of financial events on the Quarter, Mrs Chuter explained that a shortfall was already present when the strategy was agreed. The strategy was projected to be £200,000 off track and it was speculated that this shortfall could extend in excess of £400,000.

64. In response to members' questions on the unsecured bank deposits, Mrs Chuter confirmed that the County Council had received back its Volkswagen Fixed Rate bond investment with interest on the agreed date. The high level of cash was typical for the time of year due to the receipt of grants and the Local Enterprise Partnership funding which increased liquidity. Officers were working to address the high proportion in unsecured deposits to reduce the exposure to bail-in risk.

65. Resolved – That Committee notes the report.

### **Risk Management – Update on Progress to Embed a New Approach**

66. The Committee considered a report by the Executive Director Corporate Resources and Services and the Director of Workforce, Organisational Development and Delivery Support (copy appended to the signed minutes).

67. The report was introduced by Natasha Edmunds, Director of Workforce, Organisational Development and Delivery Support, who confirmed that officers were still trying to recruit to the Corporate Risk Manager role. Consideration was being given to asking the Fire Service risk manager to assist with corporate risks until the role was filled.

68. Mrs Edmunds explained that the biggest challenge for risk identification was at service level. It was hoped that better representation at the risk working group would help address this. Business Managers were getting used to the 4Risk system which had helped.

69. Mrs Edmunds felt that there was good news on risk, but acknowledged that more progress was required.

70. In response to members' questions on how other authorities handled risk, Mrs Edmunds explained that officers were looking to benchmark against other authorities. It was confirmed that all other authorities had an officer appointed to a risk role.

71. In response to members' questions on the difficulties with the Corporate Risk Manager recruitment, Mrs Edmunds explained that West Sussex was an expensive area to live; there was also high competition with all other employers, not only other authorities.

72. Resolved – That the Committee notes the progress made on risk management and raises concerns as outlined in the Internal Audit Report resolutions (minute number 41).

### **School Balances as at 31 March 2016**

73. The Committee considered a report by the Director of Education & Skills and Director of Finance (copy appended to the signed minutes).

74. The Chairman informed the Committee that she had asked officers to contact all County Council members after the meeting, informing them of the school deficit report. Members would be able to request a briefing for information on schools in their area.

75. The report was introduced by Andy Thorne, Strategic Commissioning Manager, who informed the Committee that 27 schools were currently above their balance and so were being monitored to ensure appropriate spend. It was confirmed that money had been set aside in the Total Performance Monitor to prepare for any sponsored academy deficits that would fall to the County Council. Officers were working with academies to ensure deficits were reduced where possible.

76. Resolved – That the Committee notes the report and the work undertaken with schools to manage their budgets.

### **Facilities Management Contract Compliance Performance Monitor**

77. The Committee considered a report by the Interim Programme Director (copy appended to the signed minutes).

78. The report was introduced by John Stevens, Interim Programme Director, who confirmed that the monthly performance data reported up to the end of June. Monitoring had begun in year 8 of the 10 year contract.

79. Resolved – That the Committee noted the report.

### **Date of Next Meeting**

80. The Committee noted that its next scheduled meeting would take place on 28 November 2016 at 10.30 a.m. at County Hall, Chichester.

The meeting ended at 12.58 p.m.

Chairman