



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2 - East Pallant House on Thursday 29 March 2018 at 9.30 am

**Members Present:** Mrs P Tull (Chairman), Mr G Barrett (Vice-Chairman), Mr J Brown, Mr T Dempster, Mrs N Graves, Mrs P Hardwick, Mr S Morley and Mr P Wilding

**Members not present:** Mr G Hicks and Mr F Hobbs

**In attendance by invitation:** Mr J Jones (Ernst & Young LLP) and Mr K Suter (Ernst & Young LLP)

**Officers present:** Mrs H Belenger (Divisional Manager for Financial Services), Mr N Bennett (Divisional Manager for Democratic Services), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S James (Principal Auditor), Mrs B Jones (Principal Scrutiny Officer) and Mr D Cooper (Group Accountant)

#### 177 **Chairman's Announcements**

The Chairman welcomed all to the meeting.

Apologies had been received from Mr G Hicks.

#### 178 **Approval of Minutes**

The minutes of the ordinary meeting held on 25 January 2018 attached to the agenda were considered.

#### **RESOLVED**

That the minutes of the ordinary meeting held on 25 January 2018 be agreed as a correct record.

#### 179 **Urgent items**

There were no urgent items.

#### 180 **Declarations of Interest**

No declarations of interests were made at this point.

181 **Public Question Time**

No public questions had been received.

182 **Terms of Reference of the committee**

The committee considered its Terms of Reference attached to the agenda.

The Chairman wished to remind the committee of its Terms of Reference having attended a recent Ernst & Young LLP seminar where this was raised.

Mrs Belenger advised that the entire Constitution was currently under review due to the introduction of the new corporate management structure.

The committee noted its Terms of Reference.

183 **Audit Planning Report for year ending 31 March 2018 - EY**

The committee considered the report attached to the agenda.

Mr Suter and Mr Jones of Ernst & Young LLP (EY) presented the report.

Mr Suter advised that the Ernst & Young LLP audit teams had recently been rotated and that he had taken over as the council's new Engagement Lead and that Mr Jones would be the council's new Audit Manager. The rest of the team remained which would provide continuity.

Mr Suter drew members' attention to points in the report, particularly the risk related to the earlier timeline for this year's audit.

The committee made the following comments and received answers to questions including the following:

- *Requested clarification of the 75% performance materiality.* The figure was 75% of 2%. A view was taken by EY as to what level of error would be acceptable without changing the interpretation and understanding of the financial statements and this is determined to be 2% of gross revenue expenditure which would be £1.4m. EY then applies the lower figure to ensure that the audit is conducted having identified as many potential issues as possible so as not to breach that 2% of £1.4m.
- *Is the revenue gross of our collections for other authorities as there is concern that it gives a higher materiality than the reality of the operations of this council?* The basis was set upon our gross expenditure so, unless an element of collection on behalf of West Sussex County Council for example was going through our Income & Expenditure statement, it would not be included. This was based on £71.1m as stated on page 23 of the report. This was high because housing benefit was going through our account however it did not include precepting authorities.
- The Audit Plan was a generic document which applied to most local authorities. Any differences would include whether there were new, novel or unusual transactions going through the accounts for the first time, the use of PFIs or

group accounting etc. The council was not undertaking those arrangements and so it was a standard Audit Plan.

- *Concern that sufficient resources were being allocated to mitigate the risk to the council of the accounts not being finalised according to the new timeline?* As reported to the committee in the past dry runs had been put in place to identify where the processes could be streamlined to meet the earlier closedown deadline. A period of two weeks needed to be shaved off the cycle based on last year's performance. Service champions were recently identified to drive the process in the service teams to ensure that information was received back from them in a timely way and this had been successful. Learning had been noted from past lessons. Earlier preparation with the auditors had taken place to provide them with information in good time. A portal had been launched by EY to list information that was outstanding which was considered a useful tool. The service was fully staffed and funding would be available if further resources were required.

The committee noted the report.

#### 184 **Audit Committee Briefing - EY**

The committee considered the report attached to the agenda.

Mr Jones presented the report, advising that this briefing was for the committee's information.

The committee made the following comments and received answers to questions as follows:

- *Had an increase in employee wages above 1% been included in the budget?* 2% had been included in the budget and 2% per year added to the five year Financial Strategy.
- *Would parking income be within the scope of IFRS 15?* The initial view was that we wouldn't be caught by this but it was being checked.
- *Would the authority ever be affected by a collapse such as Carillion plc?* The council does not outsource any service except for the leisure contract therefore there is no arrangement that would put us in that situation.
- *Was there a view that, as it affected a number of local authorities, the IFRS9 regulations might be overridden?* The Government had consulted on the IFRS9 issue. We had undertaken our own lobbying and had gone through official channels to put our view to them. £0.5m had been provided in our budget to cover this issue so even if there was no override we were still in a good position. Mr Catlow was able to advise on the latest information from MHCLG - they were 'minded' to approve an override however they might limit its scope to investment in the local authority property fund with an override in place by 2018-19.

The committee noted the audit committee briefing.

#### 185 **Internal Audit - Audit Plan Progress**

The committee considered the report attached to the agenda.

Mr James presented the report.

The Building & Facilities Audit – In the main contract standing orders are being complied with however, the service did not keep adequate records relating to low value contracts. It was agreed that detailed procedure notes needed to be put in place to support Contract Standing Orders. These procedures were currently being updated together with Health & Safety procedures. Mr James was able to give an update to committee that the process of writing procedures was almost complete.

2018-19 Audit Plan – A large proportion of the 2018-2019 Audit Plan would be Key Financial Systems work which would be undertaken by Internal Audit in order that reliance could be placed on the work by the Council's External Auditors and to avoid any increase in audit fees.

The committee was reminded that at the last meeting it had requested that information on audits which had been deferred be presented in a more detailed form. Mrs Belenger acknowledged that this had not been included for this meeting saying that it had been a very busy time of year for the team but that a new system for reporting would be introduced next year. The committee's attention was drawn to the second item on the committee's Terms of Reference considered earlier to 'Review or determine the Internal Audit priorities based on the corporate governance issues and risk assessments made' and stated that the committee could not do this if the information on reports was not transparent as to why audits had slipped.

Mr James confirmed that he had met with the Novium Museum's Manager. The scope of the audit had been agreed and testing had started.

The committee noted the Building & Facilities Audit report, the progress achieved on the 2017-18 Audit Plan and the newly developed 2018-19 Audit Plan.

## 186 **2017-18 Accounting Policies**

The committee considered the report attached to the agenda.

Mr Catlow and Mr Cooper presented the report.

Mr Catlow advised that these policies were agreed before the financial statements were prepared. There had been no amendments to the policies but they had been edited for brevity. In future the accounts would be developed so that they only included information to make the information readable by the public.

The committee raised the following queries and received answers to questions as follows:

- *Do we understand our target groups and should we have consulted with our users?* Local Authority stakeholders are difficult to define but could be users of public services across the area, major contractors we use and voluntary bodies we have a partnership with however it was acknowledged that local authority accounts were not widely read.
- *Concern re watering down accounts which would not enable stakeholders to see fraud or to identify financial difficulties being experienced.* The standard set of

information would still be included including disclosures below £1m. This should be enough information for a reader to be able to identify issues. The authority complied with the code of practice for disclosure; the accounts were open to the public during a set period of six weeks and they were entitled to ask questions of auditors. The reality was that the public did not take advantage of this transparency procedure.

- *With FOI powers could information be produced on a need to know basis?* Under the transparency agenda we were obliged to disclose certain information all the time and this was included. The more information we included the more auditing was required.
- *Queried officer termination benefits.* This wording meant that if there was a new structure in place the affected posts would be identifiable and that a contractual commitment existed at the time the accounts were prepared.
- *Prior period adjustments.* It was our policy to produce a note that this had happened.
- *Reinstate the fair values heading on page 92.*
- *Requested the finance team to reinstate the printed Council Tax leaflet to go out with the annual Council Tax bill.* The leaflet was available online but was unpopular with residents. Mrs Belenger was requested to consider from stakeholders' perspective that the WSCC and Sussex Police leaflets were included but not our own. Mrs Belenger undertook to pass on that request to the relevant director.

## **RESOLVED**

- 1) That the council's current accounting policies at Appendix A be approved as an appropriate basis to prepare the Council's 2017-18 financial statements.
- 2) That the principles set out in this report to review and refocus financial disclosures for 2017-18 to improve readability and increase impact be approved.

## **187 Carry Forward Requests 2018**

The committee presented the report attached to the agenda.

Mr Cooper presented the report. Four requests had been received for budgets to be carried over to 2018-19 subject to the funds being available and unspent at year end.

The role of the Assistant Corporate Counter Fraud Officer was queried. This was confirmed as internally focused work carrying out the National Fraud Initiative data matching processes and related to investigations of high and medium risk items. A set of criteria was agreed with the NFI which had been expanded this year resulting in 7,500 matches as opposed to 1,500 matches last year. The single persons discount and business rates areas were also being investigated.

The committee commended the detail provided against each carry forward request stating that this was the same concept as the detail requested on the internal audit plan. This was noted by Mrs Belenger.

## RECOMMENDED TO CABINET

That the requests for budgets to be carried forward to 2018-19 totalling £90,000 be approved.

### 188 Strategic and Operational Risks 2017-18

The committee considered the report attached to the agenda.

Mrs Belenger presented the report drawing members' attention to the heat map at item 6.3. During this quarter three new strategic risks had been identified including two high scoring risks – Southern Gateway and Local Plan. The high scoring Programme Board and Organisational Risks were included along with information on mitigation measures in place.

Mr Bennett advised that he was part of the Southern Gateway project group and updated the committee on the deliberations of that group when the project was discussed.

The committee made the following comments and received answers to questions as follows:

- Internal controls for both the Southern Gateway and Local Plan had been amended from 'improving' to 'poor' by the Strategic Risk Group following assessment by the Senior Leadership Team.
- *Queried whether all Council members should have responsibility for managing risk to the council.* A discussion took place on whether members needed to take individual as well as corporate responsibility for risks and to manage those risks within their role. It was agreed that a section should be added to the table on page 118 in the policy reflecting members' roles and responsibilities.
- *Queried the table entitled 'severity of impact matrix' on page 121 of the policy and members' responsibilities with regard to bringing embarrassment or reputation risk to the council.* Add 'member forced to resign' under 3 Serious and add 'Leader forced to resign' under 4 Major under the heading entitled embarrassment or reputation risk.
- *Concern regarding the risk to the Southern Gateway project where internal controls are showing a current status of 'poor'. Concern about the ability to achieve the target risk score of 3 by September 2018. Concern regarding the risk of reputational damage to the council which should be weighted on a similar level to financial risk.* The project team was very strong, run by Mr P Over, and risks were being reassessed on a monthly basis. Mrs Belenger advised that the target risk score of 3 (Impact 3 (Serious); Likelihood 1 (Unlikely)) was perhaps not reconsidered by the Strategic Risk Group (SRG) however the risk register was reviewed on a quarterly basis by the Senior Leadership Team (SLT). Some members requested that this target score be increased as it was clearly unachievable by September 2018. Mrs Belenger referred members to the impact and likelihood descriptions on page 121 which was the criteria when setting target scores. Although the date was stated at September 2018 it was essentially a three to five year project. If all the internal controls in place were controlled then the impact on the council in terms of severity would be less and the likelihood would be 'unlikely'. Mrs Belenger, referring to a recent note from

Mr Over, advised that the risk score should have been reflected as Impact 4 (Major) Likelihood 1 (Unlikely) and not as stated in the report, however she would confirm this score with him. The committee wished to raise its concern at the target risk score of 3 but accepted that it was not the committee's duty to amend the target risk score. Reputational damage would be added to the risk description 'Failure to deliver the outcomes of the project leading to **reputational damage and** financial exposure to CDC as lead partner, and ....'

- *Queried whether the reference to OAN (4<sup>th</sup> bullet point on page 143) should read OAN **growth**.* Mrs Belenger undertook to investigate this wording and amend as necessary.

A recommendation was proposed and seconded to move to Part II confidential exempt business in order to consider Appendix 2(b) Cyber Risk Attack across ICT Estate. The committee approved this by a show of hands.

#### **RESOLVED**

That in accordance with section 100A of the *Local Government Act 1972* (the Act) the public and the press be excluded from the meeting for the reason that it is likely in view of the nature of the business to be transacted that there would be disclosure to the public of 'exempt information' being information of the nature described in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A to the Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Following discussion of this Part II appendix the committee agreed to go back into Part I business having had a recommendation made and seconded.

Mrs Belenger agreed to investigate the queries raised and to update the policy and Strategic Risk Register with the specific actions and concerns identified above. The target risk scores for both new risks Southern Gateway and Local Plan would be clarified at the next quarterly review by SLT along with the target date for risk number CRR 147 Southern Gateway.

#### **RECOMMENDED TO CABINET AND COUNCIL**

That subject to the amendments suggested above the updated Risk Management Policy and Strategy be approved.

#### **RESOLVED**

- 1) That, subject to the specific actions above being updated and investigated, the current strategic risk register and the internal controls in place, plus any associated action plans to mitigate those risks, be noted.
- 2) That the current high scoring programme board and organisational risks and the associated mitigation plans in place be noted.

189 **Late items**

There were no late items.

190 **Exclusion of the Press and Public**

In order to consider the Part II confidential exempt matter listed as agenda item 15 Mrs Tull read out the resolution set out below, which was duly proposed and seconded. On a vote by a show of hands the committee approved unanimously the following resolution.

**RESOLVED**

That in accordance with section 100A of the Local Government Act 1972 (the Act) the public and the press be excluded from the meeting during the consideration of agenda item 15 (Potential liabilities of the Council) for the reason that it is likely in view of the nature of the business to be transacted that there would be disclosure to the public of 'exempt information' being information of the nature described in the following paragraphs in Part I of Schedule 12A to the Act as follows:

5 (Information in respect of which a claim or legal professional privilege could be maintained in legal proceedings)

191 **Potential liabilities of the Council**

The committee considered the report attached to the agenda and presented by Mr Bennett.

**RESOLVED**

That the report be noted.

The meeting ended at 12.08 pm

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CHAIRMAN

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Date: