

AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE

MINUTES of a meeting of the Audit, Best Value and Community Services Scrutiny Committee held at County Hall, Lewes on 22 March 2018.

PRESENT Councillors Colin Swansborough (Chair) Councillors John Barnes (Vice Chair), Matthew Beaver, Philip Daniel, Gerard Fox, Peter Pragnell and Andy Smith

LEAD MEMBERS Councillors Bill Bentley and David Elkin

ALSO PRESENT Becky Shaw, Chief Executive
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
John Stebbings, Chief Property Officer
Graham Glenn, Asset Investment and Regeneration Manager
Heidi Judd, Information Manager

Joanne Lees, KPMG – Director

41 MINUTES OF THE MEETING HELD ON 29 NOVEMBER 2017

41.1 The Committee RESOLVED to approve as a correct record the minutes of the meeting held on 29 November 2017.

42 APOLOGIES FOR ABSENCE

42.1 There were none.

43 DISCLOSURES OF INTERESTS

43.1 Councillor Philip Daniel declared a personal interest in regard to agenda item 11, the Former St. Anne's School site as a Local Member, but he did not consider the interest to be prejudicial.

43.2 Councillor Andy Smith declared a personal interest in regard to agenda item 11, the Former St. Anne's School as he is a Member of Lewes District Council and the report refers to Lewes District Council planning policy. He did not consider the interest to be prejudicial.

43.3 Councillor Philip Daniel declared personal interest in regard to agenda item 9 Strategic Risk Monitoring report, Risk 7 Schools as he is a school governor, but he did not consider the interest to be prejudicial.

44 URGENT ITEMS

44.1 There were none.

45 REPORTS

45.1 Reports referred to in the minutes below are contained in the minute book.

46 EXTERNAL AUDIT PLAN 2017/18

46.1 The Committee considered a report by the Chief Finance Officer, presented by Joanne Lees, Director at KPMG. The Committee noted that this would be the last external audit by KPMG before the newly appointed external auditors, Grant Thornton, take over. Ms Lees confirmed KPMG's independence from the Authority.

46.2 Ms Lees drew the Committee's attention to the level of materiality, set at £9.9m, and the four areas of focus:

- Valuation of land and buildings
- Pension liabilities
- Management override of control (required by professional standards)
- Fraudulent revenue recognition (required by professional standards)

46.3 Ms Lees rebutted the risk of fraudulent revenue recognition, owing to the limited incentives and opportunities to manipulate the way income is recognised.

46.4 It was confirmed that there was nothing further to report on the discussions with the Diocese of Chichester regarding ownership of various school premises in the County, which are ongoing.

46.5 In response to a question about the number of journal entries, the Head of Pensions confirmed that this ran into the thousands, and that the audit work will be focused on manual journals.

46.6 The Committee RESOLVED to note the Plan to be submitted to Cabinet in April.

47 EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2017/18

47.1 The Committee considered a report by the Chief Finance Officer, presented by Joanne Lees, Director at KPMG. The Committee noted that this would be the last external audit by KPMG before the newly appointed external auditors, Grant Thornton, take over. Ms Lees confirmed KPMG's independence from the Authority.

47.2 Ms Lees drew the Committee's attention to the level of materiality, set at £33m, and the three areas of audit focus:

- Valuation of hard to price investments
- Management override of control (required by professional standards)
- Fraudulent revenue recognition (required by professional standards)

47.3 Ms Lees rebutted the risk of fraudulent revenue recognition, owing to the limited incentives and opportunities to manipulate the way income is recognised.

47.4 The Committee explored the issue of the valuation of hard to price investments. It was explained that these were principally long term Private Equity investments that are valued annually for the purposes of closing the accounts and producing the Pension Fund Annual Report. The Head of Pensions confirmed that he would provide the Committee with details of the valuation process. In response to further questions he set out that Private Equity represented an exposure of 4% of the Fund, and that the process was continually monitored.

47.5 The Committee RESOLVED to note the Plan to be submitted to the Pension Committee in May 2018.

48 INTERNAL AUDIT 2017/18 PROGRESS REPORT - QUARTER 3

48.1 The Committee considered a report by the Chief Operating Officer, presented by the Audit Manager.

48.2 The Committee asked questions about the datacentre move to Redhill and the contingencies for a power outage at that facility. The Audit Manager confirmed that there was a backup centre in Eastbourne and that he would provide further details of the Redhill powercut procedures. The Chief Internal Auditor confirmed he would also seek assurance from his Surrey colleagues.

48.3 In respect of the audit of Ordinary Residence the Audit Manager clarified the final recommendation and the need for clear communication with service users about their responsibility to inform the local authority when a move is complete.

48.4 The Committee asked questions about the implementation of recommendations of the audit of Special Educational Needs and Disabilities Budget Management. The Audit Manager and Chief Internal Auditor set out the general process of determining recommendations, which involves engaging the management of the relevant service and allowing them an opportunity to develop solutions to resolve issues identified during the audit. This assists with the implementation of those recommendations. The Audit Manager also explained that follow up audits were only carried out as a matter of course in cases of partial or minimal assurance. The Committee also explored the role of health partners and how to ensure proper financial provision is made for health-related elements of any agreed care plan. It was set out that on occasions a decision is made in the best interests of the child and family, and the finances are arranged retrospectively.

48.5 The Committee discussed the audit of Academy Transition Arrangements. The Audit Manager confirmed that the Children's Services department had to take the pressure on its resources into account carefully when mapping out the capacity to support the conversion process. The Audit Manager also confirmed that he would report back on situations where schools have had a deficit on conversion. The Committee recommended instigating the charging policy promptly.

48.6 The Committee recommended careful drafting of public reports, with particular reference to the investigation of the theft of cash from a deposit box in a children's home. The Chief Internal Auditor confirmed that whenever their work identified any potential criminal activity they inform the Police, who then prioritise it according to their resources. The Chief Executive reassured the Committee that the matter had been looked at very carefully.

48.7 The Committee welcomed the individual school audits all of which were reasonable or substantial assurance, which was attributed to the training for headteachers, bursers and business managers arranged by the Internal Audit team.

48.8 The Committee RESOLVED to confirm that there were no actions that should be taken in relation issues raised in the audits carried out during Quarter 3, or new or emerging risks for consideration for inclusion in the internal audit plan.

49 INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2018/19

49.1 The Committee considered a report by the Chief Operating Officer, presented by the Chief Internal Auditor, which included the Internal Audit Strategy and Plan for 2018/19 and an updated Internal Audit Charter.

49.2 The Committee requested reassurance that the reduction in the number of audit days (Table 1 of the Strategy) would not impact on the Chief Internal Auditor's ability to form an opinion. The Chief Internal Auditor set out that the service had procured a new Audit Management System which allowed Orbis audit staff from each authority to access the same information, and expertise in certain audit areas could be shared across the partnership. He acknowledged that there was no guidance on the appropriate number of audit days, but that it was matter of judgement for him to make.

49.3 The Committee welcomed the planned audit of Home To School Transport, and queried the wording of the audit of Buzz Active. The Chief Internal Auditor reminded the Committee that the Strategy and Plan was a risk-based plan, rather than a cyclical plan. The Buzz Active audit had been scheduled owing the nature of the financial activity at the centre, and the associated risks.

49.4 The Committee asked questions about the Orbis Policy Review, and the need for Brighton & Hove City Council (BHCC) to review its key policies to avoid confusion for staff and managers, and why this had not been done before BHCC joined the Partnership. The Chief Internal Auditor set out that the purpose of the review was to make managers who work across all three authorities aware of any cultural or policy differences which may affect how staff are treated within each authority in accordance with their own employment policies. The Chief Executive emphasised that full due diligence had been done before BHCC joined Orbis, and that differences in culture were to be expected and respected. The Chief Internal Auditor highlighted that no inappropriate differences between the key policies of each partner had yet been identified.

49.5 The Committee requested details of the proposed audit of the governance of property investments, with particular reference to interaction of the audit with the instigation and development of the Property Asset and Investment Strategy. The Chief Finance Officer set out the Strategy was to be the subject of a report later on the Agenda and a report to Cabinet following input from the Committee. The precise scheduling of the audit would be subject to discussions between the service and management, but it was hoped to be early in Quarter 1, as the Strategy was potentially a new direction for the County Council, and it was important to build flexibility to audit the new arrangements into the Plan.

49.6 In respect of General Data Protection Regulation (GDPR) compliance, subject of a presentation later on the agenda, the Committee was informed that there were two audits scheduled. The first, currently ongoing, was a preparedness audit; the second, next year, a compliance audit.

49.7 The Committee RESOLVED to endorse the Council's Internal Audit Strategy 2018/19 and the Annual Plan, along with the updated Internal Audit Charter, which will be presented to Cabinet in April.

50 STRATEGIC RISK MONITORING 2017/18 - QUARTER 3

50.1 The Committee considered a report by the Chief Operating Officer, introduced by the Chief Finance Officer.

50.2 The Committee requested clarification of the Cyber Attack risk, which the Chief Finance Officer agreed to provide.

50.3 The Committee welcomed the removal of the Apprenticeship Levy from the Register.

50.4 The Committee suggested the removal of the Roads risk and the addition of a Schools Funding risk, with particular reference to small rural schools and the impact on the skills agenda and the economy. The Committee remarked on the limited powers available to the Council to provide new school places and the need to encourage and assist other providers, including providing support to the academisation programme. The Chief Executive set out the difficulties facing the Regional Schools Commissioner in attracting sponsors to act as partners to schools looking to convert to academy status. She also highlighted the ongoing lobbying work that the Council was involved in directly, and by headteachers which the Council was supporting.

50.5 The Chief Executive set out that the Roads were considered a Strategic risk as it was the aspect of the County Council's duties that was most visible to residents, and the subject of most of the correspondence.

50.6 The Committee RESOLVED to note the current strategic risks and the risk controls and responses being proposed and implemented by Chief Officers.

51 RECONCILING POLICY, PERFORMANCE AND RESOURCES (RPPR) 2018/19

51.1 The Committee considered a report by the Chief Executive, on the RRPR process for 2018/19. The Chief Executive introduced the report and outlined that it was the Committee's opportunity to provide feedback on, and suggest improvements to, the RPPR budget setting process.

51.2 Key points from the discussion:

- The Chief Executive outlined that there will be reports going to the June Cabinet meeting that will provide an update on the RPPR process and the public consultation that is taking place on the savings proposals for 2018/19.
- The Lead Member for Resources welcomed any comments the Committee wished to make on ways the Council can do things differently in regards to the RPPR process.

51.3 The Committee RESOLVED to note the report and the response to the RPPR Board's comments on the budget.

52 FORMER ST. ANNE'S SCHOOL SITE, LEWES: UPDATE REPORT

52.1 The Committee considered a report by the Chief Operating Officer, introduced by the Chief Executive, who confirmed the County Council's commitment to a transparent process that considers all options and that takes into account the relevant Core Strategies and local needs.

52.2 Key points from the discussion:

- The Committee encouraged officers to resolve the matter in a timely manner.

- The final decision on proposals for the site will be taken by the Lead Member for Resources, although input during the consultation period is welcome.
- It was clarified that an initial Consultant's report on viability, feasibility and valuation had been produced, but that it had not been made publically available as it contained commercially sensitive advice.
- The Committee decided to delete a recommendation that the process of disposal of the site should be subject to no further scrutiny.

52.3 The Committee RESOLVED to (1) note the current context for the site, activities in hand and indicative timelines proposed with regard to future engagement; and (2) note that formal proposals will be submitted in due course to the Lead Member.

53 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY

53.1 The Committee considered a report by the Chief Operating Officer, introduced by the Chief Finance Officer which provided the latest iteration of the Strategy. It set out the governance arrangements and proposed Asset Investment Board (AIB) which would consider the business case for each proposal and make recommendations to Cabinet.

53.2 Members set out the approaches of other local authorities with which they were familiar, and the risks associated with those approaches, in particular with the cyclical nature of the retail market. The Chief Property Officer reassured the Committee that the proposed AIB would take those concerns into account when assessing the business case for a proposed investment.

53.3 Members asked questions about the method of accounting for the investment and any potential losses and the scalability of the project, given the estimated rate of return of 1-2%. The Chief Finance Officer set out that the Council would have to make provision for any potential loss, and that impacts on the balance sheet would be part of the assessment process of the AIB, in accordance with International Financial Reporting Standard (IFRS) 9.

53.4 The Chief Finance Officer clarified that provision for potential losses may have to be made at the time of investment, in a similar way to the Minimum Revenue Provision for debts. Income would be set aside to cover the provision in the form of a reserve. Members reflected on the potential for the risks to have an impact on the revenue budget, and the council's ability to fund service offers.

53.5 The Chief Executive set out that the Strategy provided the framework through which individual investment decisions will be taken. The Strategy also allows for assessment of the Council's existing assets, to see if they can be developed in pursuance of the Council's priorities.

53.6 The role of officers on the AIB was discussed, and it was emphasised that it was to provide neutral and professional advice, supported by the business case, on each investment, and its associated risk. Councillor Smith remarked that Lewes District council has an Investment Board that contains Members from the majority and minority parties, supported by officers and external expert advisors.

53.7 The Committee offered encouragement to the Strategy with a level of prudent caution.

53.8 The Committee RESOLVED to (1) note the governance and resource arrangements required to deliver the strategy; (2) note that any initial revenue costs of funding initiatives that will deliver enhanced income and capital receipts in the longer term will be considered as investment proposals against the Council's transformation reserve which is delegated to the Chief Executive to approve; and

(3) note that any capital investment into assets will be subject to Cabinet approval of business cases developed to support the investment consideration.

54 GENERAL DATA PROTECTION REGULATION (GDPR) PREPAREDNESS

54.1 The Committee considered a report by the Chief Operating Officer, with a presentation by the Information Manager. A copy of the presentation is in the Minute Book.

54.2 The key changes introduced by the new legislation were set out. Information for Members will be developed to address their particular concerns, with regard to information processed by the Council and information processed for political purposes.

54.3 Members asked questions about use of personal email accounts, and the development of contact lists. They were advised of the enhanced cyber-security available by using “@eastsussex.gov.uk” email addresses (to reduce the risk of data loss) and that explicit consent should be sought from individuals before adding them to a contact or distribution list. Existing lists should be reviewed.

54.4 Attention was drawn to the Privacy Impact Assessments (PIAs) and Members were advised to exercise caution when passing requests for action onto officers, especially in the form of emails.

54.5 Members were reassured that the authority is compliant with existing Data Protection requirements, and so should already be broadly compliant with the new requirements.

54.6 Members explored the possibility of offering an information and guidance service to small organisations (such as Parish Councils and schools) that may lack the in-house expertise to address the new requirements. It was suggested that this could be offered commercially, and also charge a fee for acting as the Data Protection Officer.

54.7 The Committee RESOLVED to note the presentation.

55 SCRUTINY COMMITTEE FUTURE WORK PROGRAMME

55.1 The Committee considered the forward work programme, and the proposed revision to the Scrutiny Arrangements to be discussed at the County Council meeting on Tuesday 27 March 2018. Those proposals, if accepted, would see the formation of an Audit Committee, a People Scrutiny Committee and a Places Scrutiny Committee. The Service-related scrutiny business of the current ABVCS Scrutiny Committee would be divided between those Committees.

55.2 Councillor Daniel requested that the Community Asset Transfer policy be retained on the appropriate work programme.

55.3 It was confirmed that cross-cutting issues would be referred to the Scrutiny Chairs, who would determine referral to the appropriate Committee.

55.4 Councillor Daniel requested, that the Treasury Management Policy and the Investment and Property Strategy be retained as an annual report to the Audit Committee. The Chief Finance Officer confirmed this was in the proposed remit of the Audit Committee.

55.5 Councillor Fox requested a report on the Minimum Revenue Provision Discount Rate, referred to during the budget debate at the February County Council meeting. The Chief Finance Officer agreed to provide one.

55.6 The Committee RESOLVED to suggest the work programme of the proposed Audit Committee and Place Scrutiny Committee contain items as per points 55.2 and 55.4 above.

56 FORWARD PLAN

56.1 The Committee considered the Forward Plan.

56.2 The Committee RESOLVED to note the Forward Plan.

57 ANY OTHER ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

57.1 There were none.

The meeting ended at 12.59 pm.

Councillor Colin Swansborough (Chair)
Chair