

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at CC2 - County Hall, Lewes on 12 July 2019.

PRESENT Councillors Colin Swansborough (Chair) Councillors
Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke,
Philip Daniel, Michael Ensor and Daniel Shing

ALSO PRESENT Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
Andy Cottell, Democratic Services Manager

1 CHAIR'S ANNOUNCEMENTS

1.1 The Chair welcomed the two new Committee members, Councillors Martin Clarke and Michael Ensor to the Committee.

1.2 The Committee recorded a vote of thanks to former Committee member, Councillor John Barnes for his long standing contribution to the work of the Audit Committee.

2 MINUTES OF THE PREVIOUS MEETING HELD ON 25 MARCH 2019

2.1 The Committee RESOLVED to agree the minutes of the meeting held on the 25 March 2019 as a correct record.

3 APOLOGIES FOR ABSENCE

3.1 There were no apologies for absence.

4 DISCLOSURES OF INTERESTS

4.1 There were none.

5 URGENT ITEMS

5.1 There were none.

6 MONITORING OFFICER'S ANNUAL REVIEW OF THE CORPORATE GOVERNANCE FRAMEWORK 2018/19

6.1 The Democratic Services Manager introduced the report. This item relates to the annual review of the Corporate Governance Framework. Each Chief Officer has reviewed the framework and confirmed that all management actions for the 2018/19 year have been undertaken. The management actions for the coming year are listed in Annex A of Appendix 3 of the Governance Committee report. The Governance Committee report also notes that in the most recent Annual Audit Letter the External Auditors confirmed that Annual Governance Statement (AGS) was consistent with their understanding of the Council's governance arrangements and did not identify any issues.

6.2 The Committee discussed the contents of the report to the Governance Committee and the appendices. A summary of the Committee's comments is given below.

Governance Committee report

6.3 It was confirmed that the External Auditors still examine the Council's governance arrangements through the Annual Governance Statement (AGS), since the formal responsibility to assess them was removed when the Comprehensive Area Assessment (CAA) was abolished. Grant Thornton will look at Council's governance arrangements and will comment on them in the Audit Findings report. It was clarified that the former CAA function was the responsibility of Audit Commission and not the External Auditors.

6.4 All Chief Officers sign the assurance statements for their departments to confirm that there are proper governance arrangements in place, and there are effective risk assessment and internal control arrangements. The statements are not standard, as the requirements for each department varies with the nature of work of the department. This is a self-assessment process, but Internal Audit also checks these arrangements are in place through their audit work.

Local Code of Corporate Governance (Appendix 1)

6.5 Appendix 1 of the Governance Committee report contains a list of key policies and processes on which corporate governance framework sits. Each row in the table relates to the statutory items that the Council has to consider. The Committee commented that it was hard to interpret the information in this appendix and understand why some items are ticked and others not, without a narrative.

6.6 It was explained that the information contained in the table in appendix 1 aims to highlight the key elements of each policy or process, and how they contribute to the corporate governance framework. The Committee was informed that the contribution of each policy against the seven headings has previously been reviewed by the Governance Committee. The Committee agreed that it would be helpful to include a narrative in future reports.

Actions to Strengthen Governance (Annex A)

6.7 The Committee noted that the number of actions listed under each department varied, with two listed for Adult Social Care and Health. It questioned whether two actions were sufficient given the scale and scope of the work being undertaken by the Adult Social Care and Health department. The Chief Operating Officer clarified the actions listed in Annex A are a statement about where the focus of work will be for the coming year, which is over and above the other governance arrangements that are already in place. It is not meant to represent everything that is being undertaken by each of the departments. Each Director can specify what actions are highlighted for the coming year, which reflects the nature of work that each department undertakes.

6.8 It was clarified that the first bullet point action under Adult Social Care and Health regarding a revised approach to system governance for managing NHS financial recovery, reflects the changed environment of the Sustainability and Transformation Plan arrangements. The local NHS Healthcare Trusts are in state of financial recovery and this item reflects the Council's role in this as the system moves towards more financial sustainability. The Committee agreed to recommend that the current description of this action should be amended in the report to make it easier to understand.

6.9 It was clarified that there is already an Inter Authority Agreement (IAA) in place for the Orbis Partnership, and a revised IAA will be introduced from April 2020 (Business Services actions, first bullet point). The revision is more about reframing that agreement rather than changing or adding partners.

6.10 The Committee RESOLVED to:

- 1) Note the report;
- 2) Request that a narrative to explain the table in Appendix 1 is circulated to the Committee and included in future years reports; and
- 3) Recommend that the Governance Committee amends the text of the Adult Social Care and Health bullet point action regarding system governance for managing NHS financial recovery (Annex A) to make it easier to understand.

7 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2018/19 (INCLUDING INTERNAL AUDIT PROGRESS REPORT QUARTER 4, 2018/19)

7.1 The Chief Internal Auditor introduced the report. The report is in a similar format to previous years which includes a summary of the internal audit work carried out during the year and an overall Internal Audit opinion. The Chief Internal Auditor confirmed that he is able to give an overall opinion of reasonable assurance. Section 3.2 of the Internal Audit Annual report gives an explanation of how the overall opinion is reached, and section 4 outlines the information used as a basis for the overall audit opinion. Section 5 of the Annual report provides a summary of key internal audit issues including details of the audits that have received an opinion of partial assurance and an update on anti-fraud and corruption work. There were twelve audits that were still in progress at end of year, and the outcome of these audits will be reported in the following quarter (quarter 1 of 2019/20).

7.2 The Annual report also contains details of the amendments made to the Audit Plan during the year, which have already been reported to the Committee. The final sections of the report provide information on the Internal Audit performance over the year against the targets and standards that have been set and a summary of audits undertaken during 2018/19 (appendix B). Annex B of the report provides details of the Audits completed in quarter 4 of 2018/19.

7.3 It was clarified that the terms 'audit' and 'review' are used interchangeably in the report and there is no difference between them. In the context where management actions are agreed, an action is an individual activity that has to be carried out as a result of a review to improve the control environment. Any high risk actions will be tracked and the Internal Audit Team will seek written confirmation that those actions have been completed.

Quarter 4, Audit Opinions

7.4 The Committee discussed the audits that were completed during quarter 4, and those that received a partial assurance opinion. The Committee made the following comments and points for clarification.

- Staff travel and expenses. The audit summary describes the areas that were audited and the key areas for improvement. In particular, the outcomes of the audit highlighted the authorisation of claim forms and the rejection of claims where forms were not signed or did not have the right supporting information.
- Home to School Transport. It was confirmed that a process for checking that valid insurance is held by operators is now in place. There was no indication that valid insurance was not in place, but the evidence that checks were being made needed to be recorded appropriately.
- SAP Upgrade. It was confirmed that a formal upgrade procedure sign-off was put in place before the upgrade was undertaken. This was identified early on in the project and was rectified as part of the project. There was no suggestion that the upgrade was not going to be signed-off by the Project Board, and there was a check point milestone on the project plan. It was more an issue of what the sign-off looked like (i.e. what documentation was produced to formally record the sign-off) than there being no procedure in place.
- Academy Schools. It was confirmed that the Internal Audit Team are not involved in the auditing of academy schools, which are not maintained by the Council.

7.5 The Committee RESOLVED:

- 1) To note report;
- 2) That there were no significant control issues that need to be included in the Council's Annual Governance Statement arising from the report; and
- 3) That the Council's system for internal audit has proved effective during 2018/19.

8 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE AND 2018/19 STATEMENT OF ACCOUNTS

8.1 Marcus Ward from Grant Thornton, the Council's External Auditors, introduced report. The key findings from the audit are outlined in the Audit Findings report. The Auditors propose to issue an unqualified audit opinion on the Council's accounts and Value for Money (VFM) statement. There are no adjustments that affect bottom line and there are two management recommendations that are detailed in the report. It is evident from the audit of the accounts that the Council has its finances under control.

Audit Findings - Other Issues and Key judgements and estimates

8.2 Other findings reported on as part of the audit include:

- The McCloud Judgement is likely to have an impact on pension liabilities and should be accounted for as part of Pension Fund liabilities, but does not have a material impact on the accounts. The Auditors are comfortable with position management have taken on this and it will be dealt with as part of the triennial pension fund valuation.
- Valuation of Property, Plant and Equipment. The audit has examined this and the valuation of investment properties to check how they have been valued. The Auditors do not foresee there being any material issues in respect of these valuations.
- Net Pension Liability. The audit has examined the assumptions used for the valuation of the Pension Fund liability and the Auditors conclude that they are fair and accurate. They are therefore comfortable with the valuation and the valuation of the 'difficult to value' investments.
- Going Concern. It is evident that Council has its finances under control in relation to the 'Going Concern' judgement contained in the audit.

Value for Money (VFM)

8.3 This is the part of the audit where the Auditors examine the financial sustainability of the Council. The Auditors are satisfied that the Council has got the processes and procedures in

place for the key risks, the Medium Term Financial Plan (MTFP) and the key assumptions that underlie this. The Auditors have highlighted some of their work in this area in the report, which took an in depth look at the Council's financial planning arrangements.

8.4 In terms of reserves, ESCC is in a good financial position in relation to other local authorities as illustrated by the graph on page 17 of the Audit Findings report, which shows the level of reserves held as a percentage of net revenue expenditure. The Value for Money assessment focused on two specific areas: Joint Working with Health and Brexit. The report finds arrangements for work with NHS on social care are proactive in moving issues forward. In terms of Brexit, what the Council has put in place seems a reasonable and sensible analysis of the potential scenarios.

8.5 The Auditors have no issues to report in terms of fraud or other issues. Overall they reflected that these are a good set of accounts, with only a small number of presentational changes required to the draft accounts made public on 31 May 2019. Grant Thornton confirmed their independence as auditors.

Action Plan

8.6 The two management recommendations made by the Auditors are:

- Access to client maintenance functionalities (SCC4) in SAP. When the Auditors looked at IT arrangements a small number of users have access to change a wide range of items in the financial management system (SAP). The recommendation is that these access arrangements are reviewed to make sure management is happy with the level of access. The Chief Finance Officer outlined that an initial review of access has been undertaken and the focus of work is on how access and changes are monitored. The IT&D department have been asked to look at this issue and draft a response.
- Journals with no description. During their review of journals, the Auditors found a number of journals that had no description. Journals are manual changes to the general ledger (e.g. moving items around) and there is a risk that these can be used to override management controls or hide transactions. It is important to be able to scrutinise all journals and the documentation that supports them to lessen the potential for fraud. Having a journal description is best practice and helps keep an audit trail in place. The Chief Finance Officer outlined that there is a spreadsheet with the details of journals with no narrative, including the member of staff who actioned the journal. All staff will be reminded that journal narrative is best practice. Management will also investigate if the description can be made a mandatory field when inputting journals on the SAP system.

8.7 The Committee discussed the External Auditors Audit Findings report and the key points are summarised below.

8.8 SAP system access. It was clarified that users with access to full system rights can access financial and non-financial information such as that contained in the Human Resources module of SAP. The use of the system by the seven users who have full access rights is monitored. Grant Thornton clarified that it was the oversight of the access and the changes that are being made that is the important issue. It was agreed that the Chief Finance Officer will bring an update report on the oversight arrangements to the next Audit Committee meeting.

8.9 The Committee questioned whether the statement in the second paragraph under the heading 'Financial governance - savings plans' (in the second column on page 16 of the Audit Findings report) was correct when it states "The temporary shortfall in year was compensated by £7.3m of additional one-off savings...". The Chief Finance Officer responded that this may be a typographical error and this point may refer to the use of one-off funding opportunities to mitigate the approved slippage of savings. The Chief Finance Officer will discuss with Grant

Thornton outside of the meeting and will report back to the Committee. Darren Wells, of Grant Thornton commented that this will not alter the overall opinion of the audit findings, and that it is appropriate to reflect the one-off nature of this funding/saving in the report. (*Post meeting note: The Chief Finance Officer has confirmed that the Auditors report does not use the correct terminology, and the Auditors will change the report to replace “additional one-off savings” with “one-off funding” and the Governance Committee has been informed*).

8.10 The Committee noted that the graph illustrating the level of reserves held shows the percentage in relation to the net revenue budget of the Council, rather than the absolute quantity held. The Chief Finance Officer advised that further details of the level of reserve balances held is available in appendix 2 of the State of County report.

8.11 The Committee discussed the impact of the McCloud Judgement and the actuarial re-valuation of the pension fund. The Auditors confirmed that they will review the position regarding the impact on pension fund liabilities each year, and it will be included in next year’s report. They will flag this item in their report, especially if provision for this item has not been accounted for or becomes material.

8.12 As the Government has been refused permission to appeal the McCloud Judgement, the advice from the Auditors is that the Council should reflect this obligation in the accounts. That is why they have suggested the Council amend the accounts, but because it is not material, they are happy to accept the management approach taken to this issue. The Chief Finance Officer outlined that an allowance for the impact of the judgment may be included, by the actuaries, in the contingency factors for triennial valuation of the pension fund.

8.13 The Committee RESOLVED to:

- 1) Note the report and did not have any issues that it wished to bring to the attention of the Governance Committee; and
- 2) Request an update report is brought to the next meeting on the financial management system (SAP) access oversight arrangements.

9 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE FOR THE PENSION FUND AND 2018/19 STATEMENT OF ACCOUNTS

9.1 Marcus Ward from Grant Thornton introduced report. He outlined that the accounts for the East Sussex Pension Fund were a good set of accounts. The accounts are based on the last full valuation of the Pension Fund which was carried out in 2016, and also include a note on the impact of the McCloud Judgement. The External Auditors will be issuing an unqualified opinion and have highlighted the same two management recommendations in the Action Plan as for the ESCC accounts.

9.2 The Committee discussed the report and asked if a key to the risk scores for the East Sussex Pension Fund Risk Register (pages 6 & 7 of the East Sussex Pension Fund Annual Report and Accounts) could be provided in future. The Chief Finance Officer confirmed that a key to this table will be included in the report.

9.3 The Committee RESOLVED to:

- 1) Note the report and its appendices; and
- 2) Note management actions detailed on page 13 of the Independent Auditor’s report to those charged with governance.

10 STRATEGIC RISK MONITORING - QUARTER 4, 2018/19

10.1 The Chief Operating Officer introduced the report. Strategic risk monitoring is also part of the Reconciling Policy, Performance and Resources (RPPR) process, and was included in the quarter 4 Council Monitoring report that went to Cabinet recently. A Climate risk has been added to Strategic Risk Register to reflect the risk from climate change. The covering report also summarises any changes to the strategic risks and the management responses to them.

10.2 The Committee discussed the report and welcomed the addition of the Climate risk and a No-Deal Brexit risk to the strategic risk register. A summary of the comments made by the Committee during the discussion of the strategic risk register is given below.

- RPPR. The Committee noted that the existing text of this risk makes no mention of the increasing difficulty of delivering savings in the current financial climate. The Committee agreed that it would be worth suggesting a revision to the wording of this risk. The Chief Operating Officer agreed to discuss an amendment to the wording with the Corporate Management Team.
- Local Economic Growth – The Committee commented that it is reassuring to see that there are some risks that are rated as 'green'. It also commented that it was not solely the responsibility of the Council to deliver economic growth, and perhaps a form of wording that reflects the leverage that the Council has and what it can deliver may be more appropriate. The Chief Operating Officer will discuss re-wording the risk outside the meeting.
- Departmental risk registers. The Committee asked whether it would be possible to examine the departmental risk registers, which sit below the strategic risk register. The Chief Operating Officer outlined that it would be possible to share the contents of the departmental risk registers with interested Committee members.
- Workforce. It was noted that Workforce issues are a common problem for all local authorities and not just confined to East Sussex County Council (ESCC).

10.3 The Committee RESOLVED to note the current strategic risks and the risk controls / responses being proposed, and welcomed the addition of the Climate and No-Deal Brexit risks to the strategic risk register.

11 WORK PROGRAMME

11.1 The Chair invited the Committee to discuss any items that it would like to add to the future work programme. The Committee noted that it had been agreed during the meeting that the Chief Finance Officer would bring a report to the next meeting to update the Committee on the review of managing and monitoring and 'super user' access to the SAP financial system, referred to in the Audit Findings report (item 7).

11.2 It was agreed that the explanation of the Local Code of Corporate Governance framework details contained in Appendix 1 of the Governance Committee report (pages 15 and 16 of the agenda) will be emailed to the Committee rather than being presented as a separate report at the next meeting.

11.3 There were no further additions or changes to the future work programme of the Committee.

The meeting ended at 11.43 am.

Councillor Colin Swansborough
Chair