

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Committee Room, County Hall, Lewes on 26 March 2021.

++ The Committee Members were not present in person but took the decisions remotely ++

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

LEAD MEMBERS Councillors Nick Bennett and Sylvia Tidy

ALSO PRESENT Phil Hall, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager

Andy Conlan, Grant Thornton
Darren Wells, Grant Thornton

33 MINUTES OF THE PREVIOUS MEETING HELD ON 6 NOVEMBER 2020

33.1 The Committee RESOLVED to approve the minutes as a correct record of the meeting held on 6 November 2020.

34 DISCLOSURES OF INTERESTS

34.1 Councillor Matthew Beaver declared a personal interest in the matters on the agenda as a family member is a Senior Finance Officer for the County Council, but he did not consider this to be prejudicial.

35 REPORTS

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

36 EXTERNAL AUDIT PLAN 2020/21

36.1 The Committee considered a report by the Chief Finance Officer which presented the External Audit Plan of Grant Thornton in relation to their audit of the 2020/21 accounts.

36.2 The Committee discussed: the impact of the pandemic and how to assess it; the pension fund liability; changes to the Value for Money judgement; the triviality level of £700,000; PFI; methods and models used to generate accounting estimates.

36.3 The External Auditors confirmed that ESCC would be benchmarked against other public sector entities in assessing the response to the pandemic, and that a suite of tools is available

to help with that assessment. In respect of the Pension Fund liability, the key audit risk is whether the liability as stated in the accounts is materially correct. GT have external pensions experts who assist with that assessment.

36.4 Darren Wells and Andy Conlan explained the background to the amended approach to the Value for Money judgement, which will provide a narrative judgement rather than a binary qualified or unqualified verdict. The change is the product of a consultation by the National Audit Office. Members expressed a desire to see the consultation and the NAO response. The External Auditors set out that the report, when presented in September, will cover areas of strength of the authority, together with potential improvements, which it was hoped would add value from the audit process.

36.5 The level of triviality for errors to be reported to the Committee is set by reference to the materiality calculation of 1.5% of prior year gross expenditure and as a percentage of materiality. The level is broadly used across the sector, and the Council has operating costs of £896 million. Smaller errors are still recorded, but not individually reported to the Committee. In respect of PFI, the calculation is an estimate of the liability which is subject to a complex set of assumptions (including inflation and waste volumes). The External Auditor's role is to see if the assumptions are materially correct.

36.6 In respect of the models and assumptions used, the expectation of the External Auditors is for the Committee to rely on the assurances of the Finance Team and Chief Officers rather than undertaking analysis of the models. It was suggested that the Committee be presented with a report on what the key estimates are, and the basis of the key assumptions and methods used to produce these.

36.7 The Chief Finance Officer confirmed that ESCC had appointed a new valuer in respect of Property Plant and Equipment, and was undertaking a 100% assessment exercise, which will re-base the estimate underlying the accounting assumptions. A new actuary has also been appointed in respect of the Pension Fund, and the option to defer production of the pensions statement has been taken up, to allow for the most accurate figures attainable to be used. The timescales, even with the September deadline for final reporting, remain tight.

36.8 The Committee RESOLVED to note the report.

[Post meeting note – the National Audit Office consultation response was circulated by email to the Committee by the Chief Finance Officer – see minute 36.4]

37 EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2020/21

37.1 The Committee considered a report by the Chief Finance Officer which presented the External Audit Plan of Grant Thornton in relation to their audit of the East Sussex Pension Fund for 2020/21.

37.2 The Committee RESOLVED to note the report.

38 ANNUAL AUDIT LETTER - 2019/20

38.1 The Committee considered a report by the Chief Finance Officer which presented the Annual Audit Letter for 2019/20 and marked the completion of the audit process.

38.2 It was confirmed that the IT issue concerning submission of the Whole of Government Accounts (WGA) had been resolved, and that final notification would be communicated to the Committee via the Chief Finance Officer.

38.3 In respect of the Value for Money recommendations the authority's response would be assessed during the fieldwork stage of the audit, and reported on in September. The Chief Finance Officer confirmed that the alignment of resources to strategic priorities was communicated regularly to Cabinet through the RPPR reports.

38.4 The Committee RESOLVED to note the report.

39 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 (01/10/20 - 31/12/20)

39.1 The Committee considered a report by the Chief Internal Auditor which set out the Internal Audit team's work during Quarter 3.

39.2 The Committee discussed the MBOS reprocurement project. The Chief Operating Officer confirmed that three proposals in response to the tender were being analysed and a decision would be taken in late Spring. Surrey County Council is also undertaking a reprocurement, which has generated a high degree of collaborative work, but which may result in two separate systems, depending on the specific needs of the sovereign partners. The project is part of the Internal Audit team's scheduled work for Q4 and will be reported to the next meeting. More widely, the risk profile and mitigations to address business continuity during the implementation stage will also be addressed.

39.3 The Committee RESOLVED to (1) note the report; and

(2) thank the Internal Audit team for their work during the pandemic.

40 INTERNAL AUDIT STRATEGY AND 2021/22 ANNUAL AUDIT PLAN

40.1 The Committee considered a report by the Chief Internal Auditor which set out the Internal Audit (IA) team's Strategy and Plan for the 2021/22 financial year.

40.2 The Committee discussed: monitoring the efficiency of the IA Team; changes to the recruitment landscape; contract management and cultural compliance.

40.3 The Chief Internal Auditor set out that all IA staff time record against case files, and have performance targets related to that activity. The number of Audit Days available, which have increased by 145 thanks to efficiency gains, does not include time allocated to staff training, so staff are able to continue their professional development. The Chief Internal Auditor confirmed that specialist external support is still sought where appropriate and is budgeted for.

40.4 The Chief Internal Auditor confirmed that the team has been successful in addressing previous recruitment issues, partly as a result of the pandemic and increased flexibility in working arrangements. Two new principal auditors have been recruited, a level that had previously been hard to recruit to. The pandemic has made induction and training of new starters, especially into entry-level positions, a challenge, but is manageable.

40.5 The Committee welcomed the focus on contract management and the potential to develop further the transparency initiatives. In respect of cultural compliance, the Chief Internal Auditor explained that it referred to a department's adherence to corporate procedures such as expenses, leave arrangements, appraisals and the code of conduct.

40.6 The Committee RESOLVED to endorse the Internal Audit Strategy, the Annual Plan for 2021/22 and the Internal Audit Charter.

41 THE GOVERNMENT RESPONSE TO THE REDMOND REVIEW: LOCAL AUTHORITY FINANCIAL REPORTING AND EXTERNAL AUDIT

41.1 The Committee considered a report by the Chief Finance Officer, which presented the Ministry of Housing, Communities and Local Government's interim response to the Redmond Report.

41.2 The Committee discussed the value of the appointment of an independent member of the Audit Committee (as per Recommendation 4), noting the precedent set by such an appointment to the Pension Committee of an independent advisor.

41.3 The Committee RESOLVED to note the report, and that a report on the full response will be presented to the Committee in due course.

42 STRATEGIC RISK MONITORING - QUARTER 3 2020/21

42.1 The Committee considered a report by the Chief Operating Officer.

42.2 The Committee discussed:

- Risk 12 – Cyber Attack – The Committee asked about the impact of increased home working, caused by the pandemic, on cyber security. The Chief Operating Officer set out that staff working at home did so on ESCC devices with the usual suite of security features, and that certain platforms to support collaborative working were encouraged over others. The Audit Manager informed the Committee that an audit was currently in progress on this topic, and would be reported to a future meeting.
- Risk 14 – Post European Union (EU) transition – The Committee commented on the Red rating of the risk and suggested that this could be downgraded. The Chief Operating Officer set out that the Register reflected the position as at December, and so was likely to be adjusted in Q4.
- General presentation of the Register – The Committee commented on the infrequency with which the risks change rating and the nature of the Red Amber Green (RAG) options, and suggested that a more graduated scale or heat map might be more useful in terms of presentation. The Chief Operating Officer set out the calculations of likelihood and impact that generated the RAG rating. He agreed to investigate alternative methods of presenting the information, together with pre- and post-mitigation scores.

42.3 The Committee RESOLVED to note the report.

43 WORK PROGRAMME

43.1 The Committee considered the Work Programme. The Chief Operating Officer informed the Committee that Surrey County Council were not currently pursuing unitary authority status.

43.2 RESOLVED:

- (1) To remove the item on the potential Impact of Surrey County Council becoming a unitary authority from the list of potential items; and
- (2) To note the revised Audit Committee date in July and the rest of the Programme.

43.3 The Chair thanked Members of the Committee and officers for their contributions over the past four years. Members of the Committee thanked Councillor Colin Swansborough for his work as the Chair of the Committee.

The meeting ended at 12.00 pm.

Councillor Colin Swansborough (Chair)