Minutes

REGULATORY AND AUDIT COMMITTEE

MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON THURSDAY 27 JUNE 2013 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 9.00 AM AND CONCLUDING AT 10.56 AM.

MEMBERS PRESENT

Mr T Butcher (Vice-Chairman)
Mr W Chapple OBE
Mr R Khan
Mr D Martin
Mr Z Mohammed (Chairman)
Mr A Stevens
Mr W Whyte

OTHERS IN ATTENDANCE

Mr R Ambrose, Service Director, Finance and Commercial Services
Mr I Dyson, Chief Internal Auditor
Mr J Gillett, Grant Thornton
Mr P Grady, Grant Thornton
Ms R Martinig, Financial Accountant
Mr I Murray Grant Thornton
Ms E O'Neill, Financial Accountancy Manager
Mr M Preston, Assistant Service Director (Finance Centre of Expertise)
Ms H Wailling, Democratic Services Officer
Ms R Younger, Commercial Manager

1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Richard Scott.

The Chairman told members that the papers for Agenda Item 5 would be tabled at the meeting. A full report would be prepared for the next meeting with a response from the Chief Executive.

The Chairman also told members that there would be a demonstration of the Performance Plus software after the meeting.

2 DECLARATIONS OF INTEREST

There were no declarations.

2A MINUTES OF THE MEETING HELD ON 11 JUNE 2013

This item was added at the meeting. The Minutes had been distributed after the agenda. The Chairman apologised to members for the Minutes having been circulated late, and said that this was due to the short timings between Committee meetings in June 2013.

The Minutes of the meeting held on 11 June were agreed and signed as a correct record, with the following amendments:

- Page 5, Agenda Item 8, second bullet point – delete "*….[get stats from ID]*."
- Page 6, fifth paragraph to be amended to read "Grant Thornton would audit the Accounts, Annual Governance Statement and the whole of the *Government* Accounts return."
- Page 6, Agenda Item 9 resolution text to be amended to read "The Committee noted the *2012-13* Audit Plan…"

Matters arising

Page 5 – did members need to undertake DPA e-learning – Ian Dyson reported that there was a lack of clarity about this. The issue would be going back to the Information Governance Board for consideration – **Action: to be carried over.**
There was guidance available on the Intranet, which would be circulated to members – **Action: HW**

Page 5 – the number of officers who had undertaken the training – Ian Dyson reported that this information could not be easily obtained. A further request would be made to the Information Governance Board – **Action: ID**

Page 7 – A member asked if a response had been sent to Dr Evershed. The Chairman said that the response had not yet been sent, and would be circulated to members before being sent out – **Action: ZM**.

3 DRAFT STATEMENT OF ACCOUNTS

Richard Ambrose, Service Director (Finance and Commercial Services), and Elspeth O'Neill, Financial Accountancy Manager, were welcomed to the meeting.

Richard Ambrose said that the draft unaudited Statement of Accounts had been brought to the Committee for information at this stage, and would come again for agreement in September 2013.
The Service Director (Finance and Commercial Services) would sign the unaudited Statement of Accounts as the Council's appointed Section 151 Officer, by 30 June 2013. After this the audit of the Accounts would begin.

The finalised Statement of Accounts would be approved by the Chairman of the Regulatory and Audit Committee and the Section 151 Officer following the Audit and consideration of the Auditors' Report, by 30 September 2013.

Elspeth O'Neill said that the main points were:

- The Pension Fund accounts had been taken to the Pension Fund Committee the previous week, and the Committee had been happy with the accounts.

- The Accounts contained more information about the key environment compared to previous years.
- Page 12 showed the Revenue Budget (overall revenue position).
- The increase in the General Fund Balance was due to an underspend from the Portfolios.
- The Movement in Reserves Statement started on page 19, and showed the overall resources available to the Council.
- The Unusable Reserves referred to unrealised gains, e.g. the pensions reserve.
- Note 8 (page 41) gave a detailed breakdown about reserves.
- There had been a large increase in the capital grants reserves due to Government funding for the Aylesbury Vale Academy.
- A number of Adult Social Care properties had been disposed of in 2006-7. The discount on the bed price had been deemed to be a capital receipt. This had been treated as deferred until cash-backed. So £21.8m had been transferred to Unusable Reserves.
- Page 21 showed the Comprehensive Income and Expenditure Statement. The exceptional item loss on the revaluation of schools had been separated out. Members could decide if they wanted to separate it out again in the next year.
- There had been a £26m loss on buildings of schools which had become academies. This had been written out of the Accounts.
- When the papers had been issued, there had been an outstanding issue of £62k on the opening balance. This had now been fully resolved. The Income and Expenditure surplus needed to be changed from 7.355 to 7.293. This would not have an impact on the general fund balance.
- Page 22 showed the Balance Sheet. £11.7m of borrowing had been repaid during the year.
- The Pension Liability figure had come out of an actuarial assessment of the long-term liability for pensions. A triennial review was due in the current year.
- Page 23 showed the Cash Flow Statement. The net Increase figure of £74 210 was due to a change in the Treasury Management Strategy to longer-term investments.
- Note 38 (page 79) showed a large increase in the value of liabilities between 2010-11 and 2011-12. This was due to a change from RPI to CPI in 2010-11.

A member referred to the Revenue Budget on page 12, and the Council Tax figure of £233 479. The actual figure was the same as the budget figure. The member asked how the two figures could be the same, considering issues such as the slow collection of Council Tax. Richard Ambrose said that under the statutory provisions, District Councils collected the Council Tax. There was a Collection Fund, with a surplus / deficit. The money came to the County Council the following year. So the figure shown included the surplus from the previous year.

The member referred to page 43, where the Council Tax Income figure was different to the one on page 12. Elspeth O'Neill said that they used a forecast from the District Councils regarding what the year's surplus or deficit would be. Richard Ambrose said that in recent years, many changes had been made to bring public sector accounts closer in format to private company accounts. The aim was to allow the Council to benchmark with other local authorities, but the figures were reversed out under the line to meet the Council's requirements. The Chairman asked for a note to be added about this – **Action: EON**

A member noted a typing error on page 15, paragraph five, which should read "…The schemes are fully funded from capital grant *which* are included under taxation…"

A member noted that there was a figure missing on page 37, under *Academy Schools*.

A member referred to page 36 and asked if there would be a move to a depreciated replacement cost basis. Elspeth O'Neill said that this was correct. There had been a consultation on this. The target date had slipped to 2015, to ensure that the robust data was in place behind the figure.

A member asked what income would be generated for the Council by business rates (page 37). Richard Ambrose said that the Council would be able to retain 9% of the growth. Incentives for County Councils were not great.

A member referred to page 75 and asked where the capital assets list could be found. Elspeth O'Neill said that they followed recognised practice. Requirements for leases were not that lengthy.

A member asked what the process would be in the future to start working through the heritage assets, e.g. in Archives and Judges' Lodgings. Elspeth O'Neill said that valuations were not necessarily that robust. FRS 30 provided the chance to consider the materiality of assets. Much of the museum collections were not owned by the Council. Many items in the Archives had been donated. It was difficult to put values on these items. If members wanted more valuations carried out, this could be taken forward, although there was no plan to do this currently.
The member said that the value of the items in the Archives could become quite material.

A member asked if they needed to declare companies with whom they carried out a lot of business, in regard to the accounts. Elspeth O'Neill said that there was no requirement to do this, but that they were required to list any member interests linked to large contracts. Clarity could be provided in the Members' Information Form.

A member asked if the Council needed to report on grants to charities. Elspeth O'Neill said that it was about whether the Council controlled the charity. If the Council did not control a charity, there was no need to disclose.

A member asked about the underlying trend when looking at pure liabilities. Elspeth O'Neil referred to page 79, which showed a five year trend. The member asked why there had been such a large increase in the value of liabilities in 2011-12. Richard Ambrose said that he would report back on this **– Action: RA** (attached to Minutes).

A member asked why there were so many employers listed in the Pension Fund Scheme. Richard Ambrose said that there were about 200 employers listed. When a service was outsourced there was often a TUPE agreement, which led to the new firms applying for admitted body status into the Pension Fund.
The member asked why MK Dons was on the list. Richard Ambrose said that this was historical.

The Regulatory and Audit Committee reviewed the Statement of Accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2013 and noted the timing and requirements for completion and authorisation of the draft and final Statement of Accounts.

4 ANNUAL GOVERNANCE STATEMENT

The Committee received the Report of the Chief Internal Auditor. A draft version of the Annual Governance Statement had been brought to the previous meeting for comment. No material changes had been made since the previous meeting.

Appendix 1 contained the Annual Governance Statement Action Plan. This contained actions relating to data protection e-learning, the Audit Charter, the Local Code of Corporate Governance and the development of the Contract Management Framework.

The Service which had previously not completed its self-assessment had now done this.

Regarding the data protection e-learning, Ian Dyson had checked the timescale and December 2013 had been deemed to be a reasonable timescale for employees to complete the training. However Ian Dyson suggested that a report be made to the Regulatory and Audit Committee in September 2013 to see if the target was on track – **Action: ID**

The Service Director (Finance and Commercial Services) had been added as a responsible officer on the action regarding the Contract Management framework.

A member said that in future years it would be helpful to see track changes of the amendments made from year to year – **Action: ID**

A member noted that references to the 'Risk Working Group' should be changed to 'Risk Management Group.'

The Committee approved the Annual Governance Statement 2012/13 for signing by the Leader of the Council and the Chief Executive, subject to the Chief Internal Auditor following consultation with the Leader of the Council and the Chief Executive making any necessary amendments in the light of comments made by the Committee.

5 INTERNAL AUDIT ANNUAL REPORT (INCLUDING Q4)

The Committee received the Report of the Chief Internal Auditor. Ian Dyson, Chief Internal Auditor, apologised for the Report being tabled, and said that the Report would come to the next meeting, with a response from the Chief Executive.

The Report outlined the overall audit opinion on the adequacy and effectiveness of the Council's System of Internal Control and Risk Management. The report summarised the work undertaken by the Internal Audit Team in coming to the overall opinion. This was a key document within the Council's Assurance Framework.

Ian Dyson confirmed that no limitations had been put on him and that he had a free reign in terms of completing the Audit Plan.

Ian Dyson declared an interest as one of the senior auditors was his relative. Ian Dyson had no direct management of the auditor, and had not been involved in his recruitment.

A summary of all audits undertaken in 2012-13 was on page 7. Internal Audit was now auditing all the key control processes for all services annually, which accounted for the majority of work which had been undertaken.

There had been some work in schools, which had been in the form of thematic reviews. Governance processes had also been looked at, as well as procurement and payment processes. The Audit had looked at central information, as well as a sample of eight schools.

Internal Audit had worked with all departments on risk management, to refresh risks and mitigations. COMT regularly reviewed the Corporate Risk Register. Work was still needed to align risks with key performance areas.

The Contract Audit 12-13 had been pushed forward as resources had not been in place. The audit focused on the Amey contract and the Ringway Jacobs contract. Assurances had been obtained from:

- Risk Management Group work – the Risk Management Group had looked at Energy from Waste and at the Bucks Learning Trust, which were both procurement-based projects.
- The Contract Management Framework, which had previously been brought to the Regulatory and Audit Committee.
- The Contract Management System, which due to go live soon.

Ian Dyson said that the Regulatory and Audit Committee should have a further briefing on this, and an introduction to the Contract Management software. Ian Dyson said that there was very innovative work going on.

Opinion on the Council's Internal Control Environment Summary
The Opinion was given on page 5. A reasonable assurance had been given, which was consistent with the opinion given in previous years. The Council had good mechanisms in place for addressing weaknesses.

Of the 46 audits completed, 85% had had opinions of 'reasonable' or 'substantial.' Seven audits had been given a 'limited' assurance. Those with limited opinions included:
- The Safeguarding Vulnerable Adults Quality Assurance Framework audit
- Special Educational Needs Audit. The Service Director had previously come to the Regulatory and Audit Committee to respond to the issues raised.
- SAP Governance – there was a lack of visibility. There were no material problems but oversight was needed. Ian Dyson would be taking a paper to COMT by the end of August with a set of actions, including how to improve security.
- Payroll – there had been a system control breakdown. A project had been put in place to address this, with resources. The issue had not been included in the Annual Governance Statement as immediate action had been taken by the Section 151 Officer and by the Head of Human Resources.

The Audit of purchasing cards had found a reasonable opinion, and further details were on pages 72 and following.

A member asked if fraud testing was widened after control failures were found. Ian Dyson said that the Counter-fraud Plan informed fraud risks. If a control breakdown was identified, this would be reported to the Directors, who would be expected to respond. If there was a material fraud risk, this would be built into the Fraud Plan.

A member referred to thematic auditing of schools, and asked how the actual auditing of the school accounts was carried out. Ian Dyson said that nobody actually went in and audited the accounts. In the current year there had been a focus on central monitoring (forecasting, returns, outturns etc.).
The member asked if Ian Dyson was satisfied that this process would identify fraud. Ian Dyson said that they would have to be satisfied that there were effective controls around the governance arrangements. Fraud would eventually be picked up in the school's own processes, and the Council would investigate this. Disciplinary action would be taken or the matter would be referred to the Police. Schools were accountable bodies in their own right. Schools now had to submit a self-assessment annually, which was another source of information. If the Council's information did not match the information in the self-assessment, the Council would address this. The self-assessment was signed off by the Chair of Governors and the Headteacher.

A member referred to purchasing cards, and asked if 30 cards had been looked at. Ian Dyson said that they had run 30 reports across the system. They had also pulled out 80 individual transactions which they wanted to investigate further. The member asked if Ian Dyson was happy that 80 transactions were sufficient to provide an indicative view. Ian Dyson confirmed that this was the case. and said that there were controls in place which were visible, and an audit trail. People were also overseeing the system.

A member asked if petty cash was still used, and if the use was reviewed.
Ian Dyson said that petty cash was not used widely, and was subject to review by the 'Purchase to Pay' Project, which aimed to get rid of imprest accounts.

The Committee noted the Internal Audit Annual Report.

6 RESPONSE OF THE CHIEF EXECUTIVE

This was deferred to the next meeting (see agenda item 5).

7 TREASURY MANAGEMENT ANNUAL REPORT

The Committee received the report of Julie Edwards, Pensions and Investments Manager.

Mark Preston, Assistant Service Director (Finance Centre of Expertise), was in attendance in place of the Pensions and Investments Manager.

Mark Preston said that the Council was required to report to members on the previous year's treasury management activity. It had been agreed at County Council that an annual treasury management report, reporting on treasury management activity in the previous year, would be reported to Regulatory and Audit Committee in June of each year.

The Council approved the 2012/13 treasury management strategy at its meeting on 16 February 2012.

All treasury management activity undertaken during 2012-13 complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Due to the higher than anticipated average cash balances and the ongoing reduction in the number of counterparties that the Council could place investments with, it became necessary to make some amendments to the investment strategy during 2012/13. It was agreed that the Council could invest in UK building societies valued at or in excess of £1bn rated BBB or above.

The average rate of return on investments was 0.80% percentage points, exceeding the weighted average LIBID for the year by 0.12% percentage points.

One direct consequence of the Government's Funding for Lending initiative was the sharp drop in rates at which banks borrowed from local government. 3 month, 6 month and 12 month LIBID rates which were 1.00%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

During 2012/13 Buckinghamshire County Council (BCC) invested cash balances not required on a day-to-day basis for periods up to 1 year. The total of these investments at any one time varied between £208m and £265m at interest rates between 0.25% and 3.25%.

The interest earned and credited to the Council's revenue account was £2.28m, overachieving income by £144 000, compared to the £2.14m budget. This was due to increased cash.

During the year the Council continued to adopt a defensive strategy by not investing in banks in the Eurozone and keeping all investments to a short term.

In January 2013 the investment strategy for 2013/14 had been considered by Regulatory and Audit Committee prior to being approved by County Council in February. The 2013/14 strategy increased the maximum duration of investment with UK local authorities from 3 years to 25 years with a counterparty limit of £25m. It had been agreed that any investments greater than 10 years and the risk management process would be reported to Regulatory and Audit Committee. There had been no such investments.

In December 2011 the Icelandic Supreme Court determined that UK local authority deposits with Landsbanki qualified for priority creditor status. £2.6m was still outstanding from the £5m the Council had deposited from Landsbanki.

Each year the Council agreed Prudential Indicators under the Local Government Act 2003, which were affordable, prudent and sustainable. The actual Prudential Indicators for 2012-13 and for 2013-14 and 2016-17 were shown in Appendix 1.

Loans outstanding totalled £193.928m at 31 March 2013.

A Certainty Rate had been introduced by the Public Works Loan Board in November 2012, allowing the Council to borrow at a reduction of 20bps on the Standard Rate.

Short-term cash held by the Council and treated as short term borrowing was £15.3m from the Buckinghamshire Fire and Rescue Service as at 31 March 2013. On 2 April 2013 the Council repaid the cash balance to the fire authority which has decided to undertake its own treasury management role.

A member referred to paragraph 5 and said that it needed to clarify that the £1bn figure referred to a balance sheet value.

A member asked how the money outstanding from Landsbanki was being treated in the Council accounts.
Rachael Martinig said that it was treated as an asset. Richard Ambrose said that the assumption was that the full amount of money would be repaid.

The Committee recommended to Council the Treasury Management Annual Report and the actual Prudential Indicators for 2012/13.

8 SUMMARY OF EXEMPTIONS SOUGHT TO CONTRACTS STANDING ORDERS (EVERY SIX MONTHS)

The Committee received the Report of Rose Younger, Commercial Manager.

A previous version of the report had been attached to the agenda papers, so an updated version was circulated at the meeting. Rose Younger apologised for this and took members through the Report.

The Committee had previously asked for a report to come to the Committee every six months, that it should include the number of new contracts which had complied with standing orders, and that the exemptions be categorised by value.

The Report provided an update as to the volume and nature of exemptions that had been applied for.

Standing Orders relating to Contracts stipulated that a register of all exemptions applied for by service areas be maintained by Commercial Services on behalf of the s151 Officer.

From 1 January 2013 to 31 March 2013, 24 exemptions had been registered. This was an increase compared to the previous quarter.

The total value of exemptions 1 January 2013 to 31 March 2013 recommended on behalf of S151 Officer was £5064 227.

The total value of exemptions 1 January 2013 to 31 March 2013 not recommended on behalf of S151 Officer was £142 250.

The reasons for exemptions were described on page two.

Rose Younger asked if the current format of the report was helpful. Ian Dyson said that the Committee had asked for the Report because they wanted to review any changes to standing orders on a regular basis.

In regard to e-sourcing, the volume of activity was lower than expected. The software system used was Pro Contract, which managed procurement activity. There was value in e-sourcing for the local economy, and Bucks Business First was very keen on the software being used.

All Service Directors had been asked to provide a statement of compliance in respect of using the portal for sourcing and to provide a copy of their contracts registers so that assumptions could be tested.

Rose Younger said that she wanted her staff to go out to services and to encourage the use of the e-portal. It was very difficult to find out if it had not been used.

Rose Younger said that the threshold for contract standing orders was a bit low. Tenders were being run at a lower value, which was a cost to the Council and to the bidders. There was a question about how value for money could be proved in a way that was relevant to the cost and the risk.
Ian Dyson said that contract standing orders set out e-sourcing as a system which must be used. The issue was being able to find where it was not being used. Very good work was being undertaken to move away from being risk-averse. This would improve the control environment.

A member said that historically contracts which were expiring had not been known about in advance, and asked if they could have assurance that this would no longer happen. Rose Younger said that they were building a single corporate contract register which would allow them to set alerts appropriate to the complexity of the re-tender process. An alert would go to the Contract Manager and to the Category Manager.

A start date for the new system would be available shortly. Any differences between the register and e-sourcing would make gaps or issues visible. It would also make it easier for managers to comply. Any contracts which were being managed by telephone would be dealt with as rigorously as appropriate.

A member referred to contract renewal and said that smaller contracts were very valuable to local business, and that the current arrangements needed to be looked at. The members also said that they would be keen to advertise e-sourcing in local groups.

A member said that the forms in the current tender process were often very lengthy and complicated. The member said they also supported a change in the threshold for contract standing orders.

A member asked if the contract register would include alerts for review clauses. Rose Younger said that she was asking the Tender Team to request feedback on the cost of filling in the forms.

Regarding reviews, all contracts were being segmented as platinum, gold, silver or bronze. Platinum contracts were those over £1m, or which were high risk, and included the Ringway Jacobs contract and the Fremantle contract. The contract management system would provide an alert when the review date was due, and would provide an agenda for the review meeting. A demonstration of the system would be given at a future Regulatory and Audit Committee meeting.

The Chairman asked Rose Younger to attend the meeting in November 2013, with a demonstration of the Contract Management System and Framework
and a report regarding the suggested changes to the Contract Standing Orders **– Action: RY**

9 FORWARD PLAN - STANDING ITEM

Members noted the Forward Plan, and made amendments following discussions at the meeting.

10 DATE AND TIME OF NEXT MEETING

11 July 2013, 9am, Large Dining Room, Judges' Lodgings, Aylesbury

CHAIRMAN

Pension Fund Liabilities

Once all the other variables such as life expectancies, mortality rates, CPI etc. have been taken into consideration and a total future liability has been calculated, the actuary reports this future outlay at a net present value.

This is achieved by using a discount rate based on bond yields. Barnett Waddingham use the annualised yield on the iBoxx AA rated over 15 year corporate bond index as their discount rate.

Due to the perceived increase in risk in the Eurozone during 2011 and 2012, especially around Greece, Portugal and Spain's Sovereign debt worries, UK Gilts were seen as a safer place to invest.

The large inflow of investment drove up prices, and consequently reduced yields. The increase in Gilt prices had a knock on effect on the corporate bonds market as witnessed by the iBoxx AA rated over 15 year corporate bond index

The yield as at 31st March 2011 per the index was 5.53%
The yield as at 31st March 2012 per the index was 4.63%

The fall of 0.9% from the previous years yield would equate to around a 15% increase in liabilities on average across the contributing bodies.

The actual increase for Bucks CC between 2011 and 2012 was 15.6%

A rise in yield rates in future (all else being equal) would reduce the NPV of the fund's liabilities