

# Minutes

## *REGULATORY AND AUDIT COMMITTEE*

**MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON WEDNESDAY 25 JUNE 2014 IN ROOM 84, OLD COUNTY OFFICES, COMMENCING AT 9.00 AM AND CONCLUDING AT 11.20 AM.**

### **MEMBERS PRESENT**

Mr W Chapple OBE  
Mr S Lambert  
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  
Ms A Bulman, Acting Service Director, Service Provision (Adults and Family Wellbeing)  
Mr I Dyson, Chief Internal Auditor  
Ms J Edwards, Pensions and Investments Manager  
Ms M Gibb, Risk and Insurance Manager  
Ms R Martinig, Financial Accountant  
Mr P McGovern, Senior Finance Officer  
Mr I Murray, Manager - Assurance, Grant Thornton  
Ms R Murray, Team Manager, AFW, Service Provision  
Ms E O'Neill, Financial Accountancy Manager  
Mrs M Smith, Service Manager Performance  
Ms H Wailing, Democratic Services Officer  
Ms R Younger, Commercial Manager

### **1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP**

Apologies for absence were received from Timothy Butcher, Raj Khan and Richard Scott.

Steven Lambert was in attendance as a substitute for Raj Khan.



INVESTOR IN PEOPLE



## **2 DECLARATIONS OF INTEREST**

Steven Lambert declared an interest in Agenda Item 6 as he was also a Councillor for Aylesbury Vale District Council.

## **3 MINUTES OF THE MEETING HELD ON 10 JUNE 2014**

The Minutes of the meeting held on 10 June 2014 were agreed and signed as a correct record.

The confidential Minutes of the meeting held on 10 June 2014 were also agreed and signed as a correct record.

### **Matters arising**

Page 4 – Take up of annual leave / fraud investigation work – a report from the Chief Internal Auditor would be brought to the Committee in September 2014 – **Action: ID**

## **3A EXCLUSION OF THE PRESS AND PUBLIC**

### **RESOLVED**

**That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)**

## **4 ADULTS SAFEGUARDING AUDIT UPDATE**

### **4A INCLUSION OF THE PRESS AND PUBLIC**

## **5 CHILDREN AND YOUNG PEOPLE'S SAFEGUARDING AUDIT UPDATE**

This item had been deferred to the next Risk Management Group meeting (17 July 2014) due to the Ofsted inspection.

## **6 DRAFT STATEMENT OF ACCOUNTS**

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

Richard Ambrose said that the Statement of Accounts had been a massive piece of work. The year-end statement was about ensuring that transactions were right throughout the year. Richard Ambrose thanked Rachael Martinig, Elspeth O'Neill, Patrick McGovern and Julie Edwards for their work on the Accounts.

Richard Ambrose said that the Council had received significant cuts in funding and that these would continue as demand continued to grow. He was pleased to report that overall they had come in £526k underspent (0.16%).

There were however some significant overspends, the biggest being in Children's Services. A task and finish group had been set up to look at this.

The current budget plans were for a £50m revenue reduction by 2017.

Richard Ambrose also confirmed that the Accounts were a true and fair record and were unaudited.

An amended page was circulated, for the consolidated income and expenditure statement. This was due to the numbers being misrepresented due to how they allocated the overheads. The actual net totals were fine, and an amendment had been made to show the gross totals.

The day previously Aylesbury Vale District Council had made an adjustment to Non-domestic rates (NDR)?, but there had been no impact on the bottom line in the current year. However this would impact on BCC budgets for 2014-15.

Financial results were shown on page 18 of the Accounts. There was a decrease in the general fund of £8.56m. There was a £500k surplus.

The Council had £60m in earmarked reserves. The actual net underspend was £7.6m. Overall the finances were in a very good and stable position.

Key issues were described on page 2 of the agenda papers.

A member referred to page 15 of the Agenda pack which referred to Disclosures of interests in other entities, and asked if there was any significant change in how these were presented. Elspeth O'Neill said that disclosure of interests in other entities would not have a material impact in the current year, but would have a material impact in the following year.

A member asked about current arrangements with organisations such as the Local Economic Partnership and Bucks Advantage. Elspeth O'Neill said that these organisations were related parties, and referred to pages 35-6 of the Accounts.

A member referred to Aylesbury Vale District Council (AVDC) having made an adjustment to NDR, and said that they had not been aware that this had happened. Richard Ambrose said that business rates coming in had only started in 2013. The guidance had been very unclear. Wycombe District Council was treating the issue in a different way to AVDC. AVDC had double-counted. The issue was around differences regarding appeals, as so many were outstanding.

The member asked if they would lose the whole fund if they lost the appeal, plus having to pay a fine. Richard Ambrose said that it would be backdated.

A member referred to evaluation of property (page 2), and asked if they needed to comply with the Local Authority Code of Practice. Elspeth O'Neill said that they had produced the accounts in compliance with the Code, and were required to tell the Committee if they had not complied. In this case, they had thought that they would be in compliance, but the Code had been tightened so that they were no longer in compliance.

**The Regulatory and Audit Committee reviewed the Statement of Accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2014 and noted the timing and requirements for completion and authorisation of the draft and final Statement of Accounts.**

**The Committee noted the changes which had been mentioned.**

## **7 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.

In Section 4 (pages 12-13), the comments of the Regulatory and Audit Committee re: debt management had been incorporated.

The Public Sector Internal Audit Standard had been highlighted for the first time (page 14). The seven limited opinion reports had also been highlighted (page 9).

Ian Dyson said that he had asked members to send any further changes to him but that he had not received any further changes.

## **The Committee approved the Annual Governance Statement 2013/14.**

### **8 INTERNAL AUDIT ANNUAL REPORT (INCLUDING Q4)**

The Committee received the Report of the Chief Internal Auditor.

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.

Schools continued to form part of the Internal Audit Plan. In 2013/14, a small number of school audits had been undertaken (some of these were targeted). Internal Audit, in conjunction with the Finance Business Partner for Schools, had reviewed the S151 Officer's Assurance Framework for Financial Management in Schools, and had identified a number of areas for improvement in the corporate management control processes.

A series of workshops had been undertaken with finance staff who received financial information from schools, and who had a monitoring and support role over schools financial management. The work in schools was ongoing and was expected to conclude in the autumn, with an outcome of a clear assurance framework for the Section 151 Officer.

The Internal Audit Team was there to support the Council as well as to carry out audits. They provided support for the development of the system of internal control through providing ad-hoc advice and guidance, and through work on specific projects. These included the development of the Contract Management Framework, which had now been embedded, the Contract Management Application, which would provide the Committee with reports, and the Future Shape programme. Maggie Gibb, Risk and Insurance Manager, had been seconded to work on a dedicated Future Shape Finance Team.

There was a new and increasing demand on Internal Audit to provide assurance on the use of external grants. In 2013/14, the Chief Internal Auditor had certified all six grants referred to him without qualification.

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.

#### **Opinion on the Council's Internal Control Environment Summary**

The Opinion was given on page 9. 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.

Ian Dyson told members that the Regulatory and Audit Committee needed to keep an eye on capacity, although this was still being managed well currently. Internal Audit was actively engaging in the Future Shape Programme and the design of the governance and assurance within that.

Of the 30 audits completed, 76% had received opinions of 'reasonable' or 'substantial.' Seven audits had been given a 'limited' assurance. Those with limited opinions included:

- The Amey contract audit
- Adult Safeguarding audit (see agenda item 4)
- Children's Safeguarding audit

### **Anti-Fraud Work**

The Anti-fraud and Corruption Strategy remained current and relevant. There had been an increase in the amount of reported fraud or attempted fraud during 2013-14. This trend was reflected across the UK.

The Council had been subject to unsuccessful attempted procurement fraud by external fraudsters requesting changes to vendor details. Internal controls had identified the fraud before any loss had occurred.

There appeared to be an increase in minor fraud, which could be an indication of poor management control. This was not viewed as a major issue.

The S151 Officer and the Chief Internal Auditor had undertaken Head of Profession briefings and a Fraud Awareness Briefing to the Finance Function to remind the staff of their responsibility to be vigilant to the risk of fraud. The S151 Officer was planning similar briefings for the Managing Directors and their management teams, once the structure and shadow teams had been determined under the Future Shape project.

A member referred to Appendix 1 and that almost a quarter of reports had a limited opinion, and asked how this related to the industry standards. Ian Dyson said that there was no standard. A quarter of reports having a limited opinion was about normal. Oxfordshire County Council had three reports with limited opinions, but in the previous year had had more limited reports than Buckinghamshire County Council. The number of limited reports was a reflection of capacity in the organisation, as well as a reflection of managers' awareness. It was also a reflection of new managers coming in and highlighting issues themselves. It would be a concern if the same audits had a limited opinion in the following year.

A member said that all the limited opinion audits concerned large projects. The Council was relying on Internal Audit to pick up concerns, rather than senior management teams. Ian Dyson said that the Amey contract and the Transport for Buckinghamshire contract were areas where work was already going on in the organisation. A Select Committee had also been involved. The Adult Safeguarding Audit opinion was partly due to the pressure on the organisation. There was a need to remain vigilant.

The member asked if the planned audit approach was robust enough. Ian Dyson said that it was only one part of the work which was being carried out. Ian Dyson also said that he was happy for his plans to be challenged.

Richard Ambrose said that it was difficult to judge the number of limited reports by a percentage figure, as they were mostly issues which either were already being looked at or which had been referred for review. Richard Ambrose acknowledged that two of the limited reports were on large contracts, and said that if they were still found to be limited in the follow-up audit, this would be of concern.

A member noted that the Future Shape project was moving very quickly. Ian Dyson said that Regulatory and Audit Committee needed oversight of how well contracts were being managed, using the new contract management application.

A member asked if the issue of capacity in schools should be in a risk register. Ian Dyson said that it should be.

A member asked if the risk management training for contract managers had been completed. Maggie Gibb said that the training for platinum contract managers had been completed. The training for the majority of silver contract managers had also been completed. The member said that once it had been completed, when new risks came in, an ongoing contract management training programme would be needed.

A member asked about the payroll audit, and if historical balances would be written off. Richard Ambrose said that they would be written off in 2013-14 where appropriate.

**The Committee noted the Internal Audit Annual Report.**

## **9 CHIEF EXECUTIVE RESPONSE TO THE ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR**

The Committee received the report of the Chief Executive.

Richard Ambrose said that the report stated that the Audit and Risk Management Service's Annual Report was an important management report for the organisation providing an assurance on the Council's system of internal control.

Through the support of the Audit and Risk Management Team, risk awareness would continue to improve.

The Business Units needed better understanding of risks.

The Chief Executive had noted the capacity issues, and would put in further support if necessary. The Business Units also needed to design an assurance framework.

The audit opinion on the two management audits of both Children's and Adults safeguarding was disappointing, but at the time of the audit fieldwork, additional management resources were being introduced to help provide capacity for the services.

In the case of the Children's Service, the audit report had been delayed, and the findings were based on the fieldwork completed during Q3 and into January 2014. As a result, in May 2014 the Chief Executive had commissioned a follow up audit, as he had wanted assurance that management were now on top of the issues raised. He would expect a second follow up later in the year across both services to confirm the actions were working effectively, including the Ofsted results.

Richard Ambrose said that he would take back the point about the large contracts.

The Chief Executive was pleased to note that in his Internal Audit Strategy and Plan for 2014-15, the Chief Internal Auditor was highlighting financial management as a key area for audit.

**The Regulatory and Audit Committee noted the report.**

## **10 TREASURY MANAGEMENT ANNUAL REPORT**

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

John Chilver, Deputy Cabinet Member for Finance and Resources, paid tribute to the work of Julie Edwards and Patrick McGovern.

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 had approved the 2013/14 treasury management strategy at its meeting on 14 February 2013.

All treasury management activity undertaken during 2013-14 complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Regarding options for future borrowing, the Treasury Management Team had spoken to the Local Government Association regarding municipal bonds. Seven local authorities had already signed up to join. Initial loans would be made in the second quarter of 2016.

The final statement of the claim to the Icelandic Bank had been made and 93% of the funds owed had been paid back to the Council.

Changes to prudential indicators were shown on Pages 117-8.

A member referred to prudential borrowing and the municipal band agency and said that this could tie the Council into a 30 year loan. The member asked if the Council had dispensed with the idea of issuing its own BCC bonds. Richard Ambrose said that John Chilver and he had met Aidan Brady from the LGA and that there might be more flexibility to move in and out over time.

Richard Ambrose also said that they had asked about BCC bonds, but that it would be very complex to do on their own. However once the municipal bonds had been established, they could issue their own bonds through that. This was encouraging news.

John Chilver said that Aidan Brady had mentioned a lending threshold of £250-300m.

## **Resolved**

**The Committee RECOMMENDED to Council the Treasury Management Annual Report and the actual Prudential Indicators for 2013/14.**

**The Committee RECOMMENDED to Council changes to the authorised limit (for other long term liabilities) within Prudential Indicator 5.1 to £150m in 2014/15, £200m in 2015/16, £15m in 2016/17 and £15m in 2017/18.**

**The Committee RECOMMENDED to Council changes to the operational boundary (for other long term liabilities) within Prudential Indicator 5.2 to £130m in 2014/15, £136.5m in 2015/16, £6.5m in 2016/17 and £6.5m in 2017/18.**

## **11 STANDING ORDERS RELATING TO CONTRACTS EXEMPTIONS REPORT AND CONTRACT MANAGEMENT UPDATE**

Rose Younger, Commercial Manager, was welcomed to the meeting.

Rose Younger told members that her Report provided a summary as to compliance with the Council's standing orders relating to contracts. The reporting period covered 1 April 2013 to 31 March 2014.

Rose Younger told members that the number of exemptions was increasing. The reasons for this were many and varied. Sometimes it was because a service was waiting for contracts to expire, or because a contract was not deemed to be good value for money. The Procurement Team had worked very closely with service areas on this. This had resulted in the Property Service and Amey using the portal much more.

A member referred to page six and said that a large number of contracts had been exempted due to time needed for future provisions. They needed to ensure that procurement was undertaken at the right time to ensure that this did not happen.

### **Contract Management Application**

Rose Younger referred to the dashboard report (which she had circulated) and said that the red to green line showed contracts expiring. The contract management application gave notification to commissioners and to contract managers to start thinking about re-commissioning. The timing depended on the contract.

A member asked if the contract managers were going to challenge commissioners to allow sufficient time. Rose Younger said that they would provide a challenge. They would need to audit what people were doing, and whether fields were complete. It was absolutely vital that the notification date allowed sufficient time for consideration. A member said that time also needed to be allowed to obtain three quotes etc.

Rose Younger said that the contract management system allowed them to produce a report on the website saying which services were coming up for expiry. This would help with the market-shaping activity.

Ian Dyson referred to the Amey and TfB limited opinion reports, and said that in future they would be looking at the Contract Management application as a source of assurance.

Rose Younger said that there were 42 platinum contracts. A small number were critical contracts. Her intention was to bring a dashboard report and some random contracts annually.

Ian Dyson said that the Regulatory and Audit Committee would be wise to receive metrics across all contracts. Also, the Committee should have some oversight for platinum contracts if there was evidence of contract monitoring. The Committee could then call in the contract managers where there were gaps.

Rose Younger said that managers might also have access to the contract management system, and that the licences for this needed to be sorted out.

Rose Younger also said that where there was a very large exemption (e.g. home to school transport) this had been assessed for risk and a procurement plan was in place.

A member said that they were very encouraged by all of this, and asked if there should be a drop in the number of exemptions in the following year. Rose Younger said that she would like to think so, but that this was outside her control. The Category Manager in each service would receive notifications from the system.

Ian Dyson said that this was a good indicator of whether or not the system was working effectively.

The Chairman thanked Rose Younger and asked her to return with an update after six months.

### **| The Committee noted the Report.**

## **12 ANTI-FRAUD AND CORRUPTION STRATEGY - FOR NOTING (NO CHANGES)**

A member asked how the Strategy applied to BCC suppliers, and whether suppliers had to sign up to the Strategy. Anne Davies said that they expected suppliers to have similar processes.

Ian Dyson said that if they suspected fraud within a contract, the Strategy stated that this needed to be addressed by the Monitoring Officer and the Section 151 Officer.



A member asked if providers were asked about their anti-fraud processes. Anne Davies said that it was one of a list of criteria.

**| The Committee noted the Report.**

**13 ANTI-MONEY LAUNDERING STRATEGY - FOR NOTING (NO CHANGES)**

**| The Committee noted the Report.**

**14 FORWARD PLAN - STANDING ITEM**

The Committee noted the Forward Plan, and agreed the following changes:

- Summary of exemptions to Contracts Standing Orders and Update on Compliance with Contract Management be added to Forward Plan for January 2015 (remove from November 2014 meeting).

**15 DATE AND TIME OF NEXT MEETING**

23 September 2014, 9am, venue tbc

**16 MEMBER CLOSED SESSION WITH THE CHIEF INTERNAL AUDITOR**

**CHAIRMAN**