

# Minutes

## *REGULATORY AND AUDIT COMMITTEE*

**MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON TUESDAY 23 SEPTEMBER 2014 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 9.04 AM AND CONCLUDING AT 11.53 AM.**

### **MEMBERS PRESENT**

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

### **OTHERS IN ATTENDANCE**

Mr R Ambrose, Service Director, Finance and Commercial Services  
Mr B Cahill, Policy Officer - Scrutiny  
Mr I Dyson, Chief Internal Auditor  
Ms J Edwards, Pensions and Investments Manager  
Ms M Gibb, Risk and Insurance Manager  
Mr P Grady, Grant Thornton  
Ms R Martinig, Financial Accountant  
Mr P McGovern, Senior Finance Officer  
Mr I Murray, Grant Thornton  
Ms E O'Neill, Financial Accountancy Manager  
Mr A Oyerinde, Grant Thornton  
Ms S Turnbull, Team Leader Overview & Scrutiny  
Ms H Wailing, Democratic Services Officer

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

Apologies for absence were received from Alan Stevens.

### **2 DECLARATIONS OF INTEREST**

Richard Scott declared an interest in Agenda item 4 (the Pension Fund Accounts) as he was a Trustee of the Pension Fund.



INVESTOR IN PEOPLE



### **3 MINUTES**

The Minutes of the meeting held on 25 June 2014 were agreed and signed as a correct record, with the following amendment:

- Page 5, 3<sup>rd</sup> paragraph should read "... There was a decrease in the general fund of £8.56m...

### **4 STATEMENT OF AUDITED ACCOUNTS FOR BCC AND FOR THE PENSION FUND, INCLUDING GRANT THORNTON REPORTS**

The draft Accounts had been discussed at the meeting on 25 June 2014. The audited version of the Accounts was now before the Committee.

#### **BCC Accounts**

Richard Ambrose, Service Director, Finance and Commercial Services, thanked Grant Thornton for their work in auditing the Accounts.

There had been some changes to the Accounts as a result of the audit.

BCC had not complied with the code in reference to the rolling programme of asset valuations. There was no overall impact on the general fund.

Draft responses had been given to the proposed action plans

An unqualified opinion had been given on the financial statements.

A qualified opinion had been given on Value for Money (VFM), which directly related to the Children's Safeguarding Ofsted Inspection. Grant Thornton would take account of the progress the Council made against the action plan, and it was hoped that the VFM opinion would be unqualified by the end of 2014-15. The Council had agreed £4.8m of general fund reserves for Children's Safeguarding the previous week.

Elsbeth O'Neill said that there were five main changes, which were mainly reclassifications. Note 14 (a disposal relating to an academy) had been reclassified. There were also reclassifications relating to Note 20 and 3 items of re-categorisation. There was no overall impact on the general fund.

The Audit was not yet completed and there was one unadjusted statement.

There was also the non-compliance with the code in reference to the five year rolling programme of asset valuations. They were also likely to be non-compliant in 2014-15.

A member asked about absence provision. Elspeth O'Neill said that it had previously been classified as a provision. It had now been re-categorised as a creditor recrual.

A member asked about the rolling valuation rules. Richard Ambrose said that they had always valued 20% of each class, as this was more accurate. A lot of local authorities had taken a similar approach.

A member referred to page 16 (page 10 of the Accounts), first sentence underneath the table, and asked if it should say 'more,' rather than 'less.' Richard Ambrose said that this was in regard to the purely financing line on the income side.

A member referred to page 5, regarding the revaluation of the code. Elspeth O'Neill said that they would be looking at the depreciation policy. Paul Grady said that the auditors were happy with this approach.

Paul Grady then referred members to the Grant Thornton Audit Findings Report for BCC.

Paul Grady said that they anticipated giving an unqualified opinion. The quality of the accounts was good. Page 5 showed good commitment to transparency.

Overall the accounts were materially accurate. There had been some issues regarding presentation, disclosure and notes to the Accounts.

In the current year the Finance Team had the challenge of the subsidiary companies, which had an impact on capacity. Judgements remained sound, and where it mattered the quality remained high.

On the issue of PPE, the Council was in a similar position to many other Councils. CIPFA was looking to close the gap between the private and public sectors. CIPFA had not clarified what it meant by a 'short period.' Next year there would be changes in the Code re; school classification on balance sheets.

A member referred to page 4 of the Grant Thornton Audit Findings Report for BCC, and asked about the issue raised by a local elector. Paul Grady said that the issue raised had been in connection with educational provision for a child, but they did not anticipate that it would be material. It might mean a delay to the certificate.

Paul Grady referred members to page 12 of the Audit Findings Report and key judgements in relation to Buckinghamshire Learning Trust and Buckinghamshire Care. In both cases Grant Thornton were happy with the judgement made.

Page 16 of the Audit Findings Report largely showed classifications and the way things were disclosed.

Pages 17-19 set out the control issues that had arisen. There had been two issues in regard to journals. One issue was in regard to the practice of posting dummy journals for £1. Grant Thornton recommended that the practice be discontinued. Also, seven of the tested journals had not had supporting documents.

In 2012-13 the biggest issue had been in regard to virements, and management had agreed to undertake significant work. Grant Thornton felt satisfied that this had been addressed, but said that there was a gap in the schools balances where this still occurred.

There had been an issue re: leaver forms. One test was whether or not school payrolls were accurate according to BCC information. There was no accurate way of checking, and so a recommendation had been made.

In regard to school bank reconciliations, there was no material issue. A recommendation had been made re: consistency of approach.

In regard to IT controls, none were significant enough to set out in the Report. They would not lead to a misstatement of opinion in the Accounts.

### **Value for Money Conclusion**

In regard to Value for Money, the two key issues were Future Shape and the Economy (the weight of expectation on this was harder to deal with in the public sector).

Paul Grady said that overall there were significant risks but these were well-understood by management and were being mitigated.

One 'grit in the ointment' was the Ofsted inspection result, and this had been taken into account. Conversations had been held with officers, who had been keen to let them know that

the Ofsted findings had not been a surprise in one sense. For Grant Thornton, the gap was that the responses had been relatively short-term, and had not addressed wider strategic issues, which were the drivers behind this. Addressing the case load, although understandable, had an unfortunate result regarding training. The Council had agreed funding to put into these issues.

A member referred to Children's Services having been overspent in the previous year, and asked if Grant Thornton had looked at whether this was an ongoing situation and the reasons for it. Paul Grady said that what the member referred to was essentially the qualification of the Value for Money opinion. There had been an overspend, which had been discussed with management. It was not unusual for a Council to have over and under spends. Had the overspend been ten times larger, Grant Thornton would have flagged this louder as an alarm. There had been a task group in place looking at this. The overspend had not been significant enough to threaten the Council.

Iain Murray said that there was enough flexibility in the overall corporate financial governance to address this. Not many Councils had the reserves / resilience to put the extra funding into Children's Services as BCC had.

Richard Ambrose said that BCC had overspent in the previous couple of years. A member task and finish group had been set up to look at the financial drivers, as they wanted to understand these more. Further funding would be going in in future years as a result of the task and finish group.

A member said that the idea of the task and finish group was to see where they were going to be in the years ahead, all things being equal. However things were not equal in Children's Services, as they did not know what the demands would be. The task and finish group had identified where they were currently, and the amounts agreed should meet their requirements.

A member said that it was a shame that the Audit Findings Report for BCC had been tabled. The member referred to page 12, which referred to the 'Leaning' Trust and said this needed to be amended. Page 37 of the Accounts listed related parties, but there were some missing. This would have to be looked at again in the following year in view of new structures such as the Legal Alternative Business Structure.

Elsbeth O'Neill referred members to page 14 of the Accounts. Richard Ambrose said that they could make page 37 clearer and bring all the structures in a list there.

A member referred to the qualified opinion on VFM, and asked what wider pressure Grant Thornton had for the qualification. Paul Grady said that they were not aware of any pressure. The Ofsted report on its own did not lead to automatic qualification. Guidance required them to take into account other regulatory bodies. The Ofsted report was a starting position, not the end position. In one sense it was a matter of the timing of the report.

A member said that Grant Thornton had considered the member task and finish group and the £4.8m being put in, and asked if those would be sufficient to mitigate against a qualified opinion. Paul Grady said that it was too early to say. They had certainly taken into account that BCC had taken this issue seriously. The gap was that the response had not been sufficient in the time available.

A member said that even if the Ofsted inspection had not taken place, they would still have had to put in £4.8m, as the budget had been overspent. Paul Grady said that the difference lay in that it was not just a financial consideration, but that they were also looking at the wider strategic issues.

A member asked if there would be other local authorities with qualified reports. Paul Grady said that there would be, and that other authorities were in similar positions on the basis of Children's Services. However the judgement made was individual to each Council.

Richard Ambrose said that his understanding was that other local authorities with the same Ofsted rating were likely to have a qualified opinion. But due to the timing of the BCC Ofsted Report, they had not been able to evidence the progress made.

### **Pension Fund Accounts**

Julie Edwards said that Grant Thornton had now substantially completed work on the audit of the Pension Fund accounts, with work on Bank confirmations and the Annual Report still outstanding.

Three changes to the accounts relating to points of disclosure had arisen to date as a consequence of the audit and had been agreed with Grant Thornton. These related to:

- Note 9 Investments
- Note 12 Financial Instruments
- Note 2 Post balance sheet event

During the audit Grant Thornton had also identified some narrative presentation and disclosure issues that had also been amended. The audit had not yet concluded and further adjustments might be identified.

Ade O Oyerinde told members that the Statement of Accounts, letter of representation and Grant Thornton's Audit Findings Report for the Pension Fund had been reported to the Pension Fund Committee on 11 September 2014.

Grant Thornton had a very good working relationship with Julie Edwards and her team.

Ade O Oyerinde then told members the following, referring to the Audit Findings Report:

- Page 5 - regarding receipt of queries on accounting disclosures, minor amendments would be made regarding the notes.
- Page 5 - the direct bank account confirmation had arrived the previous day.
- They had identified one journal process issue, which had been corrected immediately; there had been no other instances.
- There were no changes to the net asset positions going forward. An unqualified opinion was expected.
- Audit findings against significant risks were shown on page 8.
- Page 15 showed the final fees charged. They were not expecting any additional fees.

The Letter of Representation was a standard representation letter.

The Chairman thanked the Finance Team and Grant Thornton for all their hard work. The Chairman said that the VFM opinion was disappointing.

### **RESOLVED**

**The Committee considered its response to the matters raised by Grant Thornton and agreed that the Statement of Accounts for Buckinghamshire County Council and Pension Fund for the financial year ended 31 March 2014 can be signed by the Chairman of this Committee.**

**The Committee approved the Letters of Representation on behalf of the Council and Pension Fund and agreed that it can be signed by the Chairman of this Committee.**

**The Committee agreed the response to the proposed action plan within the Audit Findings Reports.**

## **5 CONSTITUTIONAL CHANGES FOR APPROVAL**

Sara Turnbull and Ben Cahill were welcomed to the meeting.

Sara Turnbull said that they had focused on the changes to the Constitution which were important for good governance for Future Shape (the essential elements). Readability and accuracy had also been looked at.

Ben Cahill said that they had shaped a lot through members' comments and comments from the Monitoring Officer and the Service Director for Finance and Commercial Services.

Ben Cahill took members through the key proposed changes summarised in the covering report.

A role had been added for Regulatory and Audit Committee in relation to potential conflicts of interest in the Executive Standing Orders.

Advice had been taken from the Service Director for Finance and Commercial Services and the Assistant Service Director (Strategic Finance) about the Financial Regulations.

Codes and protocols had been tidied up.

The glossary was not yet finished.

If members had any further changes to be made, they were asked to let Ben Cahill know.

A member said that officers had done an excellent job on a difficult document. The member referred to Page 170, B4.10 and said that 'sound' should be replaced with another word (suggested 'appropriate') – **Action: BC**

The member also said that there did not seem to be any cap on borrowing by Business Units. Richard Ambrose said that currently if a Service area wanted to borrow money, they had to include the prudential indicators to Council. There were caps. Any increase had to be approved by Cabinet. Richard Ambrose said that he agreed that any borrowing by Business Units should be reported back to full Council – **Action: BC**

A member asked what the reporting procedures would be from the Business Units. Richard Ambrose said that the Business Unit Management Boards would report monthly. Transformational changes would go to the One Council Board. Richard Ambrose suggested that the reporting from Business Units could be strengthened in the Operating Framework – **Action: RA / ST**

Sara Turnbull said that they could look at mechanisms specifically for reporting back to members. A member noted that Business Unit Boards had members on them.

A member referred to the 'Capital Programme' and 'Capital Investment Strategy' and said that these phrases were used interchangeably. These were not in the glossary. Richard Ambrose said that the Capital Investment Strategy was approved by Cabinet. The Capital Programme was approved by Council.

A member referred to Page 169, B4.2 and said that it referred to two clauses which did not exist.

Richard Ambrose said that the numbering had been changed.

A member referred to page 174, B8.2.1, and asked how the figure of 25% had been assessed. The member said that they were used to working in companies where all the profits went back to the centre.

Richard Ambrose said that the current rules on carry-forward allowed 50% of underspend to be carried forward. The thought in changing this to 25% was to further incentivise the Units. They had also put in a clause that Cabinet could overrule this, and could claw back more if needed. Regarding deficits, they would carry forward and a proper plan needed to be in place to repay these over three years.

A member said that they were a member of a charity with a trading body, and that it could bid for any surplus back if it needed to. The member asked where the evidence was that Business Units needed 25% to incentivise.

Ian Dyson said that members needed a paper showing how the figure had been assessed, and what the evidence base had been. Richard Ambrose said that he would do this – **Action: RA**

A member asked if the current system of 50% worked. Richard Ambrose said that they had wanted to simplify a complex system. The current system did not necessarily work universally. Ian Dyson said that this discussion also linked back to VFM, and how BCC could ensure that funding was being spent on priorities.

Members agreed the 25% figure, on the basis that a paper of explanation was supplied. Members also asked that B8.2.1 be amended to read: “All revenue budget overspending **subject to Cabinet approval** will be carried forward...”

A member referred to pages 194 and 203 and asked what would happen if a contract extension exceeded £2m. Richard Ambrose said that there were rules around this and EU legislation. This part of the Constitution referred to contract extensions below those amounts.

Sara Turnbull suggested that they could add in the wording “any decisions which are significant are taken by members.” The Operating Framework had more detail and guidance on this.

Members asked that the wording be considered. It needed to be clear that members agreed significant extensions. It could also be clearer in distinguishing between a contract which allowed for an extension and a contract which was ending – **Action: RA**

The Chairman thanked Sara Turnbull and Ben Cahill for the report and their hard work.

#### **Resolved:**

- 1. The Committee endorsed the proposed revisions to the BCC Constitution to go forward to Full Council for approval on 20 November 2014. Members asked that all changes should come back to members by email. Final sign off was delegated to the Chairman.**
- 2. The Committee recommended that the proposed changes endorsed are reflected in the content of draft Operating Framework to ensure the Council’s core governance documentations are aligned.**

## **6 TRANSPORT FOR BUCKINGHAMSHIRE REVIEW UPDATE**

Ruth Vigor-Hedderly, Cabinet Member for Transportation, was welcomed to the meeting.

Ruth Vigor-Hedderly introduced Gill Harding and Mike Nottman.

Ruth Vigor-Hedderly said the following:

- Ruth Vigor-Hedderly had been Cabinet Member since 1 April 2014, and had instructed an independent company (Gate One) to carry out a health check on the contractual arrangement.
- Ruth Vigor-Hedderly had gone forward to bring local delivery into areas. The Amersham depot had opened, with David Molyneaux as the Interim Manager. Handy Cross depot had been re-profiled. Griffin Lane depot would open on 1 October 2014.
- The work in Buckinghamshire was very diverse. All Local Area Technicians operated from a local depot. This benefitted local residents and was a more effective approach in terms of scheduling.
- KPIs were to be set at each depot at local level, and would feed into the main KPI contract.
- The area-based approach had seen a 60% reduction in road closures. There had also been a better collaborative working mechanism with local members.
- At one stage there had been 72 road closures in South Bucks. This had now been reduced to 15. This saved a lot of money, which could be put back into the infrastructure.
- A staff restructure was also taking place.
- Ruth Vigor-Hedderly had tried very hard to demolish and rebuild the Service, putting policies and procedures into each depot. This was just the beginning.

Ian Dyson asked who had oversight of the Strategic Client. Ruth Vigor-Hedderly said that she had now appointed Mike Freestone, Gareth Llewelyn and Mike Turney. It was fundamental that they became the intelligent client.

Gill Harding said that the titles were interim, due to Future Shape changes. Mike Freestone was Director of Transport, and they were benefitting from his wealth of experience and knowledge.

A member asked if restructuring would increase the skills shortage. Ruth Vigor-Hedderly said that they were moving to be commercially-minded. Skills levels were very thin on the ground. If they had staff already in post who could grow, they should be doing that. Another big problem was that the salaries were not high enough.

Mike Nottman referred to the reorganisation and restructure and said that a number of senior people were starting the following week. More positive messages were getting out to the market place. Five apprentices were starting that day, as they were trying to grow their own talent.

A member asked how far they had progressed with audit recommendations. Ruth Vigor-Hedderly said that prior to 1 April 2014, she and Gill Harding had not been in post. Members could meet with Mike Nottman, Chris Williams or Neil Gibson.

Gill Harding said that they were trying to learn all the lessons brought out previously. They were very mindful that they did not get lost.

A member asked when they would see the outputs of the current work. The member said that outputs from local depots had improved dramatically. The member also said that the cost of the work being done by Ringway Jacobs appeared to be higher than elsewhere, and asked if this had been addressed.

Gill Harding said that Ruth Vigor-Hedderly and Lesley Clarke were involved in the governance structure. The Transformation Board was taking place that week.



Ruth Vigor-Hedderly said that they would be returning to the ETL Select Committee in January 2015 with KPI figures. She had asked Gill Harding to create a mini healthcheck on the amount of reach-back work with Ringway Jacobs. Ruth Vigor-Hedderly said that she was aware that they were very thin on staffing for Development Control, and wanted to bring the staff back in house.

The Gateway reviews had concluded, but they had asked Gate One to come back in to ensure that they were on track.

Ian Dyson said that they had compliance officers in post, challenging back through the management tier. More operational decisions were now taking place between the Client and Ringway Jacobs.

A member said that he commended the work being done. There had been a rapid change of personnel over the previous six months. How had they ensured that the 'golden thread' of knowledge and experience was not lost?

Ruth Vigor-Hedderly said that it was a real risk. They had to rely on existing skills sets. When they recruited they needed to ensure that staff had the skills, motivation etc. Bringing in 'new blood' was equally as important.

Gill Harding said that sometimes one could rely too much on too few people. Knowledge should not all be in someone's brain, but down on paper too.

Mike Nottman said that it was up to them to create a culture of sharing knowledge and experience.

Ian Dyson noted that this risk was not specific to TFB.

The Chairman thanked Ruth Vigor-Hedderly and the officers for attending, and asked them to attend the Committee again in January 2015.

## **7 CAPITAL PROGRAMME AUDIT - FEEDBACK ON RECOMMENDATIONS**

Richard Ambrose referred members to the report on pages 285-7 of the main agenda pack.

Since they had reported to the Committee in April 2014, the monitoring arrangements for the Capital programme had been amended. There was a new report format. The new report distinguished between funds which had been released through the gateway process and those that were included in the programme but are still pending release.

A member noted that the report stated that there might be implications for project managers and asked what that meant. Richard Ambrose said that it could mean increased work.

Ian Dyson asked if the process would be applied retrospectively. Richard Ambrose said that later gates would be used. In the next year there would be fewer of those.

A member referred to the £30m slippage of capital schemes and asked if that would be reported to the Committee. Richard Ambrose said that they could bring that to the Committee – **Action: RA**. The Gateway process had started after they had approved the capital programme for the current year.

Ian Dyson noted that the Select Committee was routinely monitoring this work, and that if the solutions put in place were not working, the Select Committee should raise the concerns with the Regulatory and Audit Committee.

**Resolved:**

**The Committee noted the actions taken to date in responding to the audit recommendations.**

**8 FOR INFORMATION - ANNUAL REPORT OF THE CHIEF SURVEILLANCE COMMISSIONER**

Members noted the Report.

**9 FORWARD PLAN - STANDING ITEM**

Members noted the Forward Plan.

**10 DATE AND TIME OF NEXT MEETING**

13 November 2014, 9am, Large Dining Room, Judges Lodgings

**11 INTERNAL AUDIT PROGRESS REPORT AND AUDIT PLAN**

Ian Dyson referred members to the Internal Audit Progress Report 2014-15.

The Internal Audit Plan was attached as Appendix 1 to the Report.

Ian Dyson told members the following:

- Three candidates were being interviewed that day for a Senior Auditor post.
- Recruitment was an issue in the (Internal) Audit sector.
- There were no completed audits to be reported at this stage. Resources had been prioritised to undertake reactive audit activity.
- The scope of the audit of AFW Payments to Providers had been extended. Internal Audit had been meeting with senior managers in AFW and in Finance soon to develop an improvement plan. Some weaknesses were not being addressed.
- There had been an issue in the previous year regarding direct payments. No fraud had been found but Internal Audit had found a poor process. They were just commencing an audit on this now, and predicted that there would be some issues on the control environment.
- A specialist was coming in to look at the Debt Management Strategy.
- Progress on the actions coming out of the Ofsted Inspection and the Internal Audit would be brought to the Committee.
- Two bids had been made to the DCLG for "fraud funding." DCLG had made £16m available. One of the bids was to create an anti-fraud hub to pursue Council tax fraud.
- There had been an incident of fraud at the Registrar Office (c. £4000). The individual had been prosecuted and awarded a suspended sentence.

A member said that the Cabinet Member for Children's Services said they had not seen the Audit report. Ian Dyson said that he was surprised to hear that as he understood that the Cabinet Member had seen the Audit Report. Internal Audit did not send Audit Reports directly to members, but to Strategic Directors.

The member said that there was no acknowledgement in the Ofsted Report of changes already being made. Ian Dyson said that it did refer to the fact that managers were already making changes.

A member referred to a statutory letter from the Strategic Director for Children's Services to the Chief Executive in December 2013. The Leader suggested the letter had come to the Regulatory and Audit Committee. Ian Dyson said that he had not been aware of the letter, and the letter had not come to the Committee.

Members discussed whether the letter should have come to the Committee and what the process should have been, as well as why the letter had not caused the risk register to be updated. Members asked for a report back on this, explaining if the letter should have come to R&A and if so, why it didn't come - **Action: ID**

**The Committee noted the Report.**

## **12 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)**

## **13 INTERNAL AUDIT PROGRESS REPORT - CONFIDENTIAL APPENDICES**

## **14 CONFIDENTIAL MINUTES OF THE MEETING HELD ON 25 JUNE 2014**

The Confidential Minutes of the meeting held on 25 June 2014 were agreed and signed as a correct record.

## **15 MEMBERS CLOSED SESSION WITH GRANT THORNTON**

**CHAIRMAN**