

Minutes

REGULATORY AND AUDIT COMMITTEE

**MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON
WEDNESDAY 25 MAY 2016 IN MEZZANINE ROOM 2, COUNTY HALL, AYLESBURY,
COMMENCING AT 9.00 AM AND CONCLUDING AT 10.40 AM.**

MEMBERS PRESENT

Mr T Butcher (Vice-Chairman)
Mrs A Davies
Mr P Hardy
Mr D Martin
Mr R Scott (Chairman)
Mr A Stevens

OTHERS IN ATTENDANCE

Mr C Adams
Mr R Ambrose, Director of Assurance
Mr L Ashton, Committee Assistant
Mr I Dyson, Chief Internal Auditor
Ms J Edwards, Pensions and Investments Manager
Ms M Gibb, Business Assurance Manager
Ms R Martinig, Financial Accountant
Mr P McGovern, Senior Finance Officer
Ms E O'Neill, Projects and Financial Accountancy Lead
Mr M Ward, Manager, Grant Thornton
Mr D Watson, Deputy Cabinet Member for Resources

1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Mr B Chapple OBE and Ms S Ashmead.

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

3 MINUTES

The minutes of the meeting held 27 April 2016 were agreed as an accurate record and signed by the Chairman.

4 ANNUAL REPORT OF CHIEF AUDITOR

Mr I Dyson, Chief Internal Auditor, BCC presented this report. The report detailed the Chief Auditor's opinion on the Council's system of internal control, based on the internal audits undertaken, and other available assurance mechanisms.

The report summarised the conclusions from all the internal audits completed and included the nine audits that had been concluded with "limited" assurance. Mr I Dyson highlighted the below key points which were discussed by the Committee:

- The opinion was set out on page 22 of the agenda pack. The Committee was advised that whilst the Council's overall system of internal control required attention and there were areas which required improvement it had been evident that governance had strengthened in the organisation. Officers had acted transparently and senior managers were being alerted to issues which required the Director of Assurance and Chief Executive be made aware of.
- A number of audit areas assessed as limited were the result of greater accountability in the organisation. It was recognised that many changes had been made to the organisation, including around Alternative Delivery Vehicles and this more commercial way of working had led to more limited assurance reports.
- In an organisation as diverse as the County Council it was unlikely there would ever be a case of there being no issues although it was fully expected that the opinion of the Chief Internal Auditor next year had every reason to be "reasonable" due to the strengthened governance and ownership taken by OCB.
- Members queried the number of limited assurances (9 from 18). A number of these were around schools where specific problems were known. This did not mean the same issues were across the organisation.
- It was confirmed by Mr M Ward that external auditors would not automatically qualify their opinion based on the Chief Internal Auditor having a qualified opinion.
- Previous issues with payroll were being addressed and financial system issues were new issues rather than historic.
- Members expressed concern at the opinion and hoped that improvements would be seen. Mr I Dyson confirmed that an action plan would be implemented and regular updates provided to the Committee.

The Committee was recommended to note the report.

RESOLVED

In noting the report of the Chief Internal Auditor, the Committee expressed concern about his qualified opinion of governance and internal controls and welcomed the action plan to deliver an overall opinion of “reasonable” by March 2017. The Committee look forward to regular updates from the Chief Internal Auditor and internal leads regarding delivery of the plan throughout the year.

5 DRAFT ANNUAL GOVERNANCE STATEMENT

Mr I Dyson presented this report and highlighted the below key points which were discussed by the Committee:

- An action plan was attached to the report which linked to the key governance issues that had been identified. These specific activities would be tracked through the internal audit process and regular reports would be provided to the Committee.
- An assurance mapping exercise had not yet been undertaken for Children’s Social Care and Adult Social Care but was identified as a key element of work to be completed.
- The Operating Framework had been revised and a communication plan was being worked on to roll this out to the Council. An update would be brought back to the Committee to demonstrate progress.
- Members queried the timescale for actions and asked whether it was too far in the future. It was advised that March 2017 had been set as a date when changes would be expected to have been fully embedded and there would be clear evidence of effective working. The Committee would receive regular updates between now and then from professional leads to assess progress.
- Each limited assurance report had their own action plan, many of which had been implemented and changes expected long before March 2017.

RESOLVED

The Committee APPROVED the Annual Governance Statement 2015/16. The Committee would speak to the Leader and Chief Executive to relay its concerns.

6 TREASURY MANAGEMENT UPDATE

Mr D Watson, Deputy Cabinet Member for Resources presented this report to the Committee which reported on treasury management activity in the previous financial year. The Committee were asked to consider the recommendations set out on page 51 of the agenda pack. Mr D Watson summarised the figures and percentages detailed in the report and key issues were discussed as below:

- Mr D Watson explained that the treasury management strategy had been preparing for the EfW plant which was the largest purchase the Council had made. The full £180m had been planned to be included in the accounts, however for various reasons of delay the full amount would be receipted and paid for in the first quarter of the current financial year. Recovering VAT on this purchase was a priority of the Council. It was understood this would be recovered from HMRC in around five to six weeks after the payment so short term borrowing would be required in the meantime to fund the payment.
- Mr R Ambrose assured the Committee that any changes to the original EfW business case were being tracked as closely as possible.
- Mr D Watson advised that the short term borrowing had been required on one occasion during 2015/16 when £15m was borrowed for 7 days at 0.28% for short term cash flow purposes. The March 2015 BACS run had been £10m larger than expected at the same time HMRC held back two months VAT which lead to an £11m debtor. Forecasting cash flow was described as volatile and difficult to predict.
- Mr R Ambrose confirmed that the strategy would now be to borrow all that was needed for the EfW plant using low temporary variable loans.
- A Member queried what was being done in respect of loans taken out some years ago at high rates of interest and whether these were being restructured or rescheduled. It was confirmed that these were continually looked at and most high debt was being paid off over the next four years and the premium to pay these loans off early was a prohibitive factor. By 2020 the majority of these loans will be paid.

RESOLVED

The Committee RECOMMENDED to Council the Treasury Management Annual Report and the actual Prudential Indicators for 2015/16.

The Committee RECOMMENDED to Council a change to the operational boundary for external debt within Prudential Indicator 3.3 from £230m to £250m in 2016/17.

The Committee RECOMMENDED to Council a change to the Upper Limit of Variable Fixed Rate Borrowing within Prudential Indicator 4.4 from £100m to £140m in 2016/17.

7 DRAFT STATEMENT OF ACCOUNTS

Mr R Ambrose, Director of Assurance, Ms E O'Neill, Senior Accountancy Lead and Ms J Edwards, Pensions & Investments Manager presented the draft unaudited statement of accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2016. Mr R Ambrose highlighted the following points which were discussed by the Committee.

- The timescale for completion of the draft statement of accounts had been brought forward by a month and Mr R Ambrose gave credit to Ms E O'Neill, Ms J Edwards, Ms R Martinig,

Mr P McGovern and the wider finance and budget managers. The accounts contained a narrative report for the first time to aid understanding.

- The overall position showed a £362k overspend against the net revenue budget. This was viewed positively given the high predicted overspend halfway through the year.
- The General Fund reserve was £17.384m which was slightly higher than forecast when setting the budget.
- A “Corporate Landlord” approach had been adopted towards BCC’s property estate in order to drive better value from these assets. A detailed review of the agricultural estate had been carried out and a review of the remainder of the property estate was currently being carried out. Investment property are now valued at fair value in the accounts as they are held to earn rentals or for capital appreciation..
- Pension liability recorded a gain of £71.922m. This gain was said to have mainly related to changes in financial assumptions used by the actuary.
- A Member queried how much provision was made for the Adventure Learning Foundation (ALF) loan and questioned whether this was being serviced. Mr R Ambrose was limited in his response due to ongoing talks with ALF in respect of the loan.
- A Member asked what had happened that was not predicted which lead to the spending freeze. It was advised that this was mainly linked to additional demand and unit costs required within both Children’s services and Adult Services An error was noted on page 111 of the agenda pack.

Action: Ms E O’Neill to amend the figure under the Buckinghamshire Law Plus item to read £0.068m rather than £0.68m before the publishing of the draft accounts.

The Committee gave thanks to the Officers and their teams for the completion of the draft accounts which had been completed to a shorter timescale than they had in the past.

RESOLVED

The Committee reviewed the Statement of Accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2016 and noted the timing and requirements for completion and authorisation of the draft and final Statement of Accounts.

8 VERBAL UPDATE ON TEE

Mr I Dyson provided this update on behalf of the TEE Business Unit following actions that were raised at the last meeting. The Committee had noted that three highlighted actions had not been updated by the TEE Business Unit. The actions related to the planning applications audit and property contract process and procedures. The actions had now been updated and fundamentally completed. Overall the Committee were advised that there were still some actions in TEE where dates were moving.

Mr I Dyson suggested that the next internal audit quarterly update report due to be provided at the July meeting details a list of outstanding actions across the organisation. Any areas highlighted of significant importance would then have the appropriate Directors invited to attend. An update on the action tracker would also be provided at that meeting.

9 FORWARD PLAN

The Committee noted the Forward Plan. In addition to the items for July's meeting a quarterly audit update would be added with the detailed action tracker as noted above. A progress report on audits in progress for this financial year and outstanding audits from 2015/16 would also be provided.

It was confirmed that the Risk Management Group's Forward Plan included addressing concerns around ADV's and an update could be provided at a future meeting. Mr R Schmidt would also bring an update to the July meeting on external audit actions as noted at the previous meeting.

An additional item would be added to the November agenda around the monitoring of the Annual Governance Scheme action plan as discussed under item 4. The Buckinghamshire Learning Trust was due to return to the Committee in November and Members recognised this as a long period to wait.

Action: Ms M Gibb to explore the possibility of holding an additional meeting toward the end of September should it be required.

The Committee thanked Mr I Dyson for his and his team's efforts and wished him the best as he will be leaving his current role.

Members also thanked the Chairman who would be stepping down from his role.

10 DATE OF NEXT MEETING

28 July 2016 at 9 a.m. in Mezzanine Room 2, County Hall, Aylesbury

CHAIRMAN