

# Minutes

## *REGULATORY AND AUDIT COMMITTEE*

**MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON WEDNESDAY 24 MAY 2017 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 9.00 AM AND CONCLUDING AT 10.28 AM.**

### **MEMBERS PRESENT**

Mr D Dhillon  
Ms N Glover  
Mr N Hussain  
Mr D Martin  
Mr P Martin  
Mr D Watson

### **OTHERS IN ATTENDANCE**

Mr R Ambrose, Director of Finance & Assets, Service Director, Finance and Commercial Services  
Ms R Bennett, Committee Assistant  
Ms J Edwards, Pensions and Investments Manager  
Ms L Forsythe, Group Solicitor and Deputy Head of Legal Services  
Ms M Gibb, Head of Business Assurance  
Ms R Martinig, Financial Accountant  
Ms E O'Neill, Projects and Financial Accountancy Lead  
Mr T Slaughter, Executive, Grant Thornton Auditors

### **1 ELECTION OF CHAIRMAN**

Mr P Martin proposed that Mr D Martin be the Committee Chairman for the coming year. This was seconded by Mr D Dhillon.

### **RESOLVED**

**That Mr D Martin be elected as Chairman of the Regulatory and Audit Committee for the ensuing year.**

### **2 APPOINTMENT OF VICE CHAIRMAN**

Mr D Martin appointed Mr T Butcher as Vice-Chairman of the Regulatory and Audit Committee.

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

Apologies were received from Mr Tim Butcher.

New Members of the Regulatory and Audit Committee were confirmed as Mr S Bowles, Mrs N Glover, Mr P Martin, Mr D Watson, Mr D Dhillion and Mr N Hussain.

### **4 DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **5 MINUTES**

The Chairman updated the Committee on the following points from the minutes of the previous meeting held on 8 February.

#### **Item 4 Effectiveness of Debt Management Strategy**

Finance Directors from Children's Social Care and Learning (CSCL) and Communities, Health and Adult Social Care (CHASC) Business Units would be attending the meeting on 26<sup>th</sup> July to discuss their debt management performance. Mr M Strevens would also provide an update on reducing the County Council's historic debt.

#### **Item 6 Quality Assurance Framework**

Update to be provided in 2018.

#### **Item 7 Business Assurance Update**

An income generation assurance task and finish group had been formed and an update would be provided to the Committee in July 2017.

#### **Training for Members after the Election**

Mrs L Forsythe provided feedback to colleagues regarding the Member Induction training following the Election. A comprehensive induction and training programme had been developed by Member Services and it was highlighted that it had been well received by all who had attended.

The minutes of the last meeting held on 8 February 2017 were agreed as a correct record and signed by the Chairman.

### **6 GRANT THORNTON - PENSION FUND AUDIT PLAN**

Mr T Slaughter attended the Committee to update Members on the Audit approach for the Buckinghamshire Pension Fund 2016/17 accounts.

**During discussion key points were highlighted as follows:**

- Planning materiality had been determined based upon professional judgement in the context of Grant Thornton's knowledge of the Fund and in line with previous years. For purposes of planning the audit overall materiality was determined to be £22,213k, being 1% of net assets as at 31 March 2016 (£2.2m). Mr Slaughter confirmed that additional risk was not perceived. All misstatements over £1.1m would be reported to the Committee along with the circumstance details
- The report set out the significant risks identified, which was where the bulk of work for Grant Thornton was identified. These were identified as:
  - Revenue cycle including fraudulent transactions
  - Management override of controls
  - Level 3 Investments Valuation being incorrect
- The Committee discussed the 3 levels of investments and how these were calculated and Mr Slaughter confirmed that level 3 reflected no market valuations available, advising there was a prescribed methodology for evaluating these.
- Mr Slaughter also highlighted further risks identified which were not considered to be areas that were highly judgmental, or unusual in relation to the day to day activities of the business
- The update highlighted the timeline of the audit with the final audit visit on 19 June 2017. Following this there would be a two week timescale to complete work. Report would then be presented to the Regulatory and Audit and Pension Fund Committees in July
- The Committee's attention was drawn to the audit fees and a question was raised regarding the man hours that would be involved. Mr Slaughter confirmed that the fees were unchanged from last year and were set by Public Sector Audit Appointments Ltd, (PSAA). It would include 2 members of the team for 1 week, 2 weeks of audit visits, 8 weeks of junior staff and 2 weeks of senior staff.

**RESOLVED: The Committee noted the report.**

## **7 GRANT THORNTON - EXTERNAL AUDIT PLAN**

Mr T Slaughter presented to the Committee the External Audit plan for the County Council.

**During discussion key points were highlighted as follows:**

- The changes announced by the Chartered Institute of Public Finance and Accountancy (CIPFA) / of the implementation of the Highways Network Asset Code for the financial reporting requirements of local authorities would no longer go ahead. It was noted that the work that had already been carried out for this was no longer required
- In line with previous years, financial statements materiality was calculated based on a proportion of gross revenue expenditure. For the purposes of planning the audit they had determined overall materiality to be £15,896k (being 2% of 2015/16 gross revenue expenditure). Their assessment of materiality was kept under review throughout the audit process and any revisions during the audit would be advised. The Committee asked why materiality was different between the Pension Fund (being 1%), Mr

Slaughter confirmed that this was the same as previous years and considered appropriate and that their focus was on income and expenditure. He also confirmed that any statements greater than £795k would be reported.

- Significant, additional and other risks identified were also highlighted in the report
- The Committee's attention was drawn to the Value for Money (VfM) assessment in the report and highlighted the risks identified. Mr Slaughter confirmed that most of their work would focus on Children's Services and they were being kept up to date with progress made following the Ofsted inspection. Mr Slaughter confirmed that currently it was likely the previous qualification given would be retained
- The update highlighted the timeline of the audit with it starting at the beginning of June, expected completion to be by the end of June, for a report to be presented at the Regulatory and Audit Committee in July.
- The fees of the audit were highlighted in the report, again set by the PSAA, which included an additional £2k prescribed by the PSAA (subject to agreement) nationally. Mr Slaughter confirmed that there would also be a separate billing fee for Bucks Care, but at present could not comment on the final level of the fee.
- It was suggested that as the bulk of audit planning was carried out in January, that the report provided could come sooner next year to the Committee. It was reflected that it had been deferred this year due to the April meeting being cancelled because of local elections and in the future it would be planned to come to the Committee in January and would be added to the forward plan.

#### **The Committee made the following comments:**

- Reference was made to the significant risk highlighted regarding the evaluation of plant, property and equipment. It was noted that the Council were making ongoing investments into property and the need to ensure Audit competences of external bodies. Mr Slaughter confirmed that as part of the process external bodies were contacted, in this case Carter Jonas in relation to their approach to evaluating properties, which allowed comparison to national guidelines to be made.
- In respect of the Value for Money aspect of Social Care and how this would be monitored and challenged. Mr Slaughter advised that they would gain an understanding Social Care arrangements and whether the County Council were meeting their statutory duties. It was also confirmed that updates were received from those implementing the improvements in Children's Services to check whether these would be qualified or not. This would be based on commentary within their report providing assurances that improvements were being made.
- The Committee referenced the delay in the year end accounts for Bucks Care. Mr Slaughter confirmed there were two audits still ongoing and that a signed copy of these was awaited, upon receipt details would then be provided to the Committee.
- The Committee discussed the viability of pulling forward the audit cycle and the option of closing accounts on a monthly basis, as is done in the private sector. Mr R Ambrose confirmed that there were a small number of Local Authorities that already did this and that the previous year's Audit had been signed off in July, 2 months earlier than in previous years. It was therefore likely to be the same time this year.

- It was confirmed that the contract with Grant Thornton was due to expire at the end of 2017, the Chairman thanked Mr Slaughter and his colleagues for the support given over a number of years.

**RESOLVED: The Committee noted the report.**

## **8 DRAFT STATEMENT OF ACCOUNTS**

Mr Ambrose introduced the report of the unaudited draft statement of the accounts. The report set out the following recommendation to the Committee:

### **Recommendation:**

**To review the Draft Statement of Accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2017 and to note the timing and requirements for completion and authorisation of the draft and final Statement of Accounts.**

Mr Ambrose highlighted the following points:

- Revenue budget position reflected an underspend of £6m, which had masked some pressures in portfolios, but had restored balances. It was confirmed that some underspends were one off in nature, so these would not be seen year on year
- Mr Ambrose announced that Mrs E O'Neill, Financial Accountancy Manager would be moving to Transport, Economy and Environment as Finance Director. Mr Ambrose thanked Mrs O'Neill and her team for their hard work and this was echoed by Members of the Committee. Mr Ambrose assured the Committee that the effectiveness of the County Council's financial management and accounting functions will not reduce while appointing Mrs O'Neill's replacement.

Mrs O'Neill presented the draft statement of accounts and highlighted the following points:

- There had been strong performance this year with a £6.0m underspend added to a planned contribution to the general fund; resulting in an overall £7.1m increase in general fund reserves. When setting the budget for 16/17 the team were aware the reserves had reduced. Therefore as part of the budget setting process £1.1m had been added into the reserves.
- Additions to the accounts this year included 'Telling the Story' changes that CIPFA had introduced nationally. It was also highlighted that Income and Expenditure was now matched to how this was reported to Cabinet Members.
- The report included a new note which related to the Expenditure Funding Analysis note, which provided direct reconciliation from how we present in our management accounts to Cabinet and the actual amounts shown in the accounting statement under the comprehensive income and expenditure statement. This would show a £21m loss however this would relate to the adjustments
- There was a significant increase in the Pension Fund liability, showing an increase of £250m. The main reason for this was a drop in the bond discount rate 3.6% to 2.7%. It was noted that should the discount rates increase then this effect would be reversed.

- Strong year for the asset growth of the Pension Fund increasing by £88m.
- Triannual review of the Pension Fund in 2016/17 looked at the overall liabilities and employer contributions which needed to be made. As a result of the revaluation contributions had increased from 22.8% to 26.4%, which had been factored into budgets for this and future years.
- The issue relating to Schools Revaluations was also highlighted referring to the Prior Period Error. The valuers had advised of an error in the reporting of land values held at Academy Schools under 125 year leases. The land element was retained on the balance sheet; however due to the nature of the lease the Council's valuers had advised that the land should be recorded at notional value only (of £1,000 for each school) as the freehold value of the land should be deferred for the unexpired residual term of the lease. The impact of this error was to reduce the value of Property, Plant & Equipment reported in the balance sheet as at 31 March 2016 by £89.5m. In order to correct this error, the County Council had restated the prior year balance sheet, prepared a third balance sheet and restated the Notes to the Accounts.

**The Committee discussed the following points:**

- The Committee queried if the figures quoted in the accounts for Bucks Care were based on assumption or whether it was known what the total value of outstanding debts were and how much would be recovered? Mrs O'Neill confirmed that there had been a detailed review of Bucks Care and in particular outstanding debtors. A detailed exercise had taken place and those debts included were considered to be recoverable.
- Reference was made to the segmented income and the decrease in Health & Wellbeing, Children's Services and Education and Skills. Mrs O'Neill agreed to look into this and report back to the Committee in July 2017

**ACTION: Mrs O'Neill**

- The Committee asked for an explanation around the £3.3m reserve in Planning and Environment relating to Waste as it was understood that the Energy from Waste Plant was operating to a higher capacity than originally thought. Mr Ambrose confirmed that this was as the plant had only been in operation for a year with no downtime; this was to build up reserves to plan for the future. Mr Ambrose also confirmed that this would be reviewed on a yearly basis
- The Committee suggested more clarity be provided in the report on the impact of the waste contract with Business Units and to isolate the impact this was having on the accounts. Mr Ambrose agreed this was a good suggestion and would take this forward

**ACTION - Mr Ambrose**

- The Committee discussed the overall underspend and whether this had been anticipated. Mr Ambrose confirmed that the County Council had not budgeted for a further contribution due to the underspend. They were forecasting an increasing underspend throughout the year, however this ended up being slightly higher than previously forecast
- The future plans for Bucks Learning Trust were also discussed and Mr Ambrose confirmed that the team were reviewing how some of these services were to be delivered going forward and what the statutory duties were for the County Council

The Committee also considered the Draft Statement of Accounts for the Pension Fund, which were presented by Mrs J Edwards.

Mrs Edwards highlighted the following points:

- There was an increase in the net assets available for benefits of £474m. It was noted that the number of contributors on the report had reduced as outstanding leavers had now been processed following an administration backlog. This would also result in the number of contributors decreasing further as some leavers as at 31 March 2017 remain outstanding
- The results of the valuation were that the past service funding level of the Fund as a whole had increased from 82% to 87% between 31 March 2013 and 31 March 2016. The improvement of the funding position since the previous valuation was mainly due to improved investment returns and employer contributions.

The Chairman thanked Mrs O'Neill for the quality of the reports and wished her well in her new role with TEE.

**RESOLVED: The Committee REVIEWED the Draft Statement of Accounts for the Council and Pension Fund for the year ended 31 March 2017 and NOTED the timing and requirements for completion and authorisation of the draft and final Statement of Accounts.**

## **9 BUSINESS ASSURANCE TEAM UPDATE (INCLUDING QUARTER 1 INTERNAL AUDIT PLAN)**

Ms M Gibb, Chief Internal Auditor presented the Business Assurance Team update and highlighted the following points:

- The team were in the processes of completing 2016/17 outputs and the Annual Governance Statement.
- They were monitored through the Audit Board and approved any changes to the audit plan throughout the year.
- The number of investigations being carried out was reported to the Statutory Officers Group, this would also come to the next Regulatory and Audit Committee.
- The Strategy for this year was in the process of being developed and would be reported to the Committee. The Strategy would be kept flexible in order for the team to be able to react to any changes or issues that arose.
- The Audit of quarter 1 had commenced and all outputs would be reported to the Committee.
- The Committee asked whether the Energy from Waste (EfW) contract was included under the Waste audit. Ms Gibb confirmed that it was not for this particular Audit as it focused on recycling. It was confirmed that the EfW contract and assurances on risks were reported regularly into the Risk Management Group and that the Contract Management Audit would come back to Regulatory and Audit Committee.

**RESOLVED: The Committee APPROVED the Q1 Audit Plan.**

## **10 RISK MANAGEMENT GROUP UPDATE**

Ms M Gibb, Chief Internal Auditor updated the Committee on the Risk Management Group function and highlighted the following points:

- The Risk Management Group was a subgroup of the Regulatory and Audit Committee and was open to all Committee Members.
- There was a rolling programme of risk registers across the organisation and those risks scored above 20 were reviewed along with mitigating actions.
- The Group had received detailed updates on Bucks Care and Energy from Waste.
- Minutes from the group were circulated to all Committee Members for information.

The Chairman highlighted the importance of the group and its value to the organisation and recommended that all Members of the Regulatory and Audit Committee attend when possible.

## **11 FORWARD PLAN**

Ms Gibb updated the Committee on the Forward Plan. It was highlighted that the meeting in April 2017 had been cancelled therefore an additional meeting had been arranged for June 2017.

Ms Gibb would to circulate a copy of the forward plan to all Committee Members for their information.

**Action: Ms Gibb**

## **12 DATE AND TIME OF NEXT MEETING**

14 June 2017, 9am - Mezzanine Room 1, New County Hall, Aylesbury.

### ***Amendment***

*Since the meeting the next date for the Committee had been moved to 15 June, 2pm, Mezzanine Room 1, New County Hall, Aylesbury. An email had been circulated to all Committee Members.*

## **13 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)**

## **14 CONFIDENTIAL MINUTES**



**CHAIRMAN**