

Minutes

REGULATORY AND AUDIT COMMITTEE

MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON WEDNESDAY 25 JULY 2018 IN MEZZANINE ROOM 1 - COUNTY HALL, AYLESBURY, COMMENCING AT 9.00 AM AND CONCLUDING AT 11.10 AM.

MEMBERS PRESENT

Mr R Bagge
Mrs P Birchley
Mr T Butcher (Vice-Chairman)
Mr D Dhillon
Mr M Farrow
Mr D Martin (Chairman)
Mr D Watson

OTHERS IN ATTENDANCE

Mr R Ambrose, Director of Finance & Procurement
Miss L Dale, Committee Assistant, Buckinghamshire County Council
Ms J Edwards, Pensions and Investments Manager
Ms M Gibb, Head of Business Assurance
Mr P Grady, Engagement Lead, Grant Thornton Auditors
Ms S Harlock, Audit Manager
Mr J Hollis, Head of Legal and Compliance,
Ms R Martinig, Financial Accountant
Mr P McGovern, Senior Finance Officer
Mr T Slaughter, Executive, Grant Thornton Auditors
Mr L Whitehead, Finance Accountancy Lead

1 CLOSED SESSION WITH EXTERNAL AUDITORS

RESOLVED

Members attended closed session with External Auditors. See agenda item 12.

2 CLOSED SESSION WITH INTERNAL AUDITOR

RESOLVED

Members attended closed session with Internal Auditors. See agenda item 12.

3 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies had been received from Mr P Martin.

The Chairman welcomed Mr J Hollis, Head of Legal and Compliance, who had recently been appointed to replace Mrs L Forsythe who had recently retired.

The Chairman thanked Mrs Forsythe on behalf of the Regulatory and Audit Committee for all the hard work that she had contributed over the years.

4 DECLARATIONS OF INTEREST

There were none.

5 MINUTES

The Chairman reviewed the minutes of the meeting held on 31 May 2018:

- The action on page 7 for Mr R Ambrose, Director for Finance and Procurement, would be brought to a future Risk Management Group meeting.
- The action on page 8 for Mr L Whitehead, Finance Accountancy Lead, was covered in item 6 (Statement of Accounts) under the energy from waste section.
- The second action on page 8 for Mr Ambrose in relation to a misunderstanding around Level 3 Assets had been covered as the County Council currently did not have any.
- There was an action for Mr Ambrose to circulate any significant changes to the Statement of Accounts to the Chairman. There were none.
- The final action for Ms Edwards was in response to a Member's question about the increase in operational costs. The main reason for the increase is staffing costs. In summary, this was the full year effect of additional posts created, cover for staff on maternity leave and temporary staff to produce annual benefit statements in accordance with statutory deadlines. This cost was covered by the pension fund itself. **Ms Edwards agreed to circulate the full details of this.**

ACTION: Ms Edwards

RESOLVED

The minutes of the meeting were agreed as an accurate record and signed by the Chairman

6 STATEMENT OF ACCOUNTS

Mr R Ambrose presented a report on the audited Statement of Accounts. Before giving an overview of the report, Mr Ambrose apologised to Members for the late amendments.

- The following points were noted during discussion and in answer to Members questions:
- Since 31 May, Grant Thornton had completed their audit of Buckinghamshire County Council's accounts. As a result of the audit, there had been three main adjustments and

six recommendations which Members would be asked to consider and make a decision on whether the Committee could agree to endorse the Statement of Accounts.

- A discussion took place where Members raised concerns about accessing reports. **Mr Ambrose agreed to ensure that, in future, the correct version of the report was clearly marked with version control.**

ACTION: Mr R Ambrose

- It was requested that reports containing significant financial detail are printed for Members for ease of reference during meetings. **The Chairman agreed to consider requests for printed reports when appropriate in future.**

ACTION: Chairman

- The first adjustment to the Statement of Accounts was a technical accounting adjustment which would have no impact on investment assets. Further detail on the change was included on page 67 (note 19) of the accounts.
- The second adjustment was in relation to Council Tax, short term trade and other receivables. This was detailed on page 77 and 78 (note 24). The line that had changed was the collection fund adjustment line and this was a presentational correction.
- The third adjustment arose from the meeting held on 31 May 2018, at which it was requested that officers look into the high balance of grants over £1m. These grants, including Adult Social Care and Better Care grants, had been moved to page 44 (note 7) and were now correctly reallocated. A Member suggested that it would be more helpful to differentiate the grants capital from the revenue and tie this information to the figures on page 13 relating to revenue financing.
- While auditors were satisfied that the presentation of the accounts was compliant with regulations, Members were welcome to request a change. **In respect of the table on page 13, Mr Ambrose agreed to review the presentation to see where improvements could be made for future years.**

ACTION: Mr Ambrose

- **The Vice-Chairman identified that a correction to a typographical error was required on page 67; the revaluation gains and losses was £9,122 but the amended number on page 84 was £9,110.**

ACTION: Ms R Martinig

- The table on page 15 showed a figure of £30,819,000 outturn for Corporate Costs. An in depth discussion took place on what level of detail would be appropriate in the County Council's final accounts. **Mr Ambrose confirmed that there had been an error relating to the figure for earmarked reserves in that there had been an increase of £15m as opposed the decrease that was shown. Mr Ambrose agreed to make the necessary amendments.**

ACTION: Mr Ambrose

- A correction was required on page 20 under the heading Unitary Authority. The date should be changed from May 2017 to May 2018.
- A discussion took place with regards to the information on page 26, Events after the Balance Sheet. Mr Ambrose clarified that the Early Redemption figure was the result of a strategy to repay certain LOBO loans and borrow using PWLB loans where it would be more cost-beneficial to do so. Further explanation was provided on the £28.7m early redemption premium; the old LOBO loans were 4.4% interest and the new PWLB loans were 2.5% which would cover the premium costs, over the 50 year lifetime of the new loan.
- The Council had appointed an Independent Treasury Management Advisor (Arlingclose) whose role it was to review and inform these decisions. Arlingclose have approximately 170 Local Authority clients. The Council's officers meet with Arlingclose regularly for advice along with the Cabinet Member for Resources to discuss strategies and plans.
- Members highlighted that there had been an increase in Investment Property value (page 32 of the Statement of Accounts supplement) from £83.8m in 2017 to £130.8m in 2018. It was explained that the majority of this increase came from the revaluation of land and property owned by Buckinghamshire County Council.
- Two properties that were purchased with PWLB loans raised concerns about the commercial risk in the property sector. Members were assured that the Council was aware of the risks and that, to mitigate these risks, the Council had a diverse portfolio which included industrial and office units. Decisions to acquire investment properties required approval from the Cabinet Member for Resources.
- **The title of this section was 'Comprehensive Income and Expenditure Statement' and this should be changed to 'Comprehensive Balance Sheet'.**

ACTION: Mr Ambrose

- **The concerns about the risks involved in investing in retail properties would be discussed at a future Risk Management Group meeting.**

ACTION: Ms Gibb

- An in depth discussion took place regarding the timeliness and quality of the accounts and audit reports. Members discussed the controls that Grant Thornton had put in place to identify errors, the process for quality checking and testing. Members received reassurance that the audit of the Statement of Accounts was completed with adequate controls and in alignment with CIPFA accounting principles and policies.
- Page 113 set out the Significant Audit Risks and findings. These were inherent risks that were not specific to Buckinghamshire County Council.
- Mr Grady confirmed that Grant Thornton was comfortable with the assessments and judgements used by management; and accounting policies had been green rated as appropriate.

- Mr Grady gave an overview of the addendum report which had been tabled at the meeting and highlighted the following:
- Page 4 of the addendum report showed that £5M of investment properties had not been valued during the period but this would not have an impact on the audit findings as this was an estimate on judgement rather than statement of fact.
- Points 2 and 3, pertaining to liabilities still showing at year end, explained that the errors were extrapolated and would not mislead the reader of the accounts.
- While the external auditors could not provide a percentage against the number of errors, it was explained that a predictive algorithm was used to identify that the four items that were in error were as a result of balances that had rolled over. These were all small in value.
- **Mr Ambrose confirmed that a clean-up of roll over balances would be completed.**

ACTION: Mr Ambrose

- A Member raised concerns regarding the length of time that the Council had experienced issues with privileged SAP access.

RESOLVED

The Committee NOTED the report

7 PENSION ACCOUNTS

Ms J Edwards, Pensions and Investments Manager, presented the Pensions Accounts and gave a verbal overview.

- The following points were noted during discussion and in answer to Members' questions: the amendments, which were highlighted in blue, were made as a result of a recent change in accounting policies.
- There had been a change to the way that certain elements of the accounts were presented; in particular, it was now a requirement that all bonds were disclosed as a single line. Further analysis was provided in note 11.
- On page 7, there is a line missing from the second paragraph which starts '. children'. This line had subsequently been added. On page 20 the restated date of accounts had been changed from 31 March 2016 to 1 April 2016.
- For the table on page 21- 22 which reconciled the fair value values, the analysis has now been added.
- Income earned from investments overseas in certain other countries is subject to withholding tax unless an exemption is available. Page 23, Value of Financial Instruments, showed that there were £165m of Level 3 items with unobservable outputs. As part of the audit it was agreed that this was a reasonable figure. The Chairman explained that the total amount of Level 3 investments held constituted less than 5% of the total value of the fund.
- The report sets out the findings which had no effect on the bottom line or value, therefore the draft was a fair and accurate position.

- Testing was in line with the approach taken last year and nationally. There were elements that were different including the risks around Level 3 investments and how Level 3 investments were audited.
- Members discussed the transfer of data to the new custodian.
- Level 3 investments were private equity which accounted for less than 5% of the fund; the other 95% was stocks and bonds, the values of which were readily identifiable.
- The ongoing transition would be monitored and the new investment company, Brunel, would be audited. The diversity in the portfolio offsets movement in exchange rates and generally would not affect the bottom line.
- Members highlighted concerns about spread of risk within the scheme. Controls to mitigate this risk were in place. Mr Slaughter attended the Pension Fund Committee meetings and noted that Members of the Committee were providing oversight. The external auditors were satisfied that the controls met all required investment and governance criteria; and there were no concerns on their part that the Council was not managing the fund effectively.

The Chairman thanked Ms Edwards and the representatives from Grant Thornton for their reports. He also thanked them for their 100% attendance at Pension Fund Committee meetings.

8 VALUE FOR MONEY STATEMENT

Mr P Grady and Mr T Slaughter, External Auditors, Grant Thornton presented their report (including an addendum report).

The following points were noted during discussion and in answer to Members questions:

- The report was an assessment of the arrangements the Council had in place rather than an assessment of value for money to identify how well the Council managed budgeting and performance of services.
- Auditors had assessed the performance of Children's Services following the Ofsted outcome. In particular they had looked at transformation plans and how these would fit with the Council's plans. The conclusion was consistent with previous years. Auditors confirmed they were comfortable that the necessary arrangements were in place.
- Buckinghamshire County Council was average in comparison to other Local Authorities in their level of reserves and ability to respond to a crisis.
- The Communities Health and Adult Social Care (CHASC) Better Lives transformation programme was inherently risky, as with any transformation programme. It was highlighted that there were appropriate governance arrangements in place; and evidence of effective wider working
- Wider working with STP. Work with NHS. Evidence of enthusiasm and willingness to work with partners. There were no significant concerns with decisions or reasoning in relation to the arrangements for the Bucks Learning Trust.
- The Chairman noted that he had in previous years made representations that in view of improved performance in the Children's Service, the qualified VFM statement may not have been appropriate. However whilst there had been evidence of improvement,

Children's Services remained in special measures despite significant additional spending. Therefore this year the Chairman accepted the VFM qualification and would make no representations to change it.

- The Members welcomed the External Auditors comments in relation to CHASC's work with external Health Services.
- An in depth discussion took place about the different controls for each business unit; Children's Services was measured by Ofsted but the other Business Units had less external scrutiny. Members were reassured that the Risk Management Group considered these issues and therefore there was an element of independent judgement.
- It was suggested that the new version of the BCC accounts is dated 26 July 2018.

The Chairman thanked the External Auditors for their reports and for their collaborative and effective professional relationship with the County Council.

RESOLVED

Members AGREED to endorse the Statement of Accounts, Pensions Accounts and letters of representation subject to the amendments discussed; and that the Chairman and Section 151 Officer sign these off accordingly.

9 ANNUAL GOVERNANCE STATEMENT

Mr R Ambrose, Director of Finance and Procurement, presented his report and the Annual Governance Statement.

The following points were noted during discussion and in answer to Members' questions:

- The Annual Governance Statement was published each year alongside the accounts taking into consideration assurances over the control framework.
- Paragraph 5 set out the key weaknesses, in particular relating to Commissioning/Contract Management, Technology Services and Children's Services. It was confirmed that robust action plans are in place to address the identified weaknesses.
- The Statement would need to be signed by the Chief Executive and Leader.
- Members were asked to consider the evidence and that is appropriate before presenting to the CEO and Leader to sign today (25 July).
- Updates on progress of implementing the actions would be provided to the Corporate Management Team, Regulatory and Audit Committee and the Risk Management Group.

RESOLVED

The Committee AGREED to recommend the Annual Governance Statement to the Chief Executive and the Leader

10 HEAD OF AUDIT ANNUAL OPINION

Ms M Gibb, Head Business Assurance (& CIA), presented her report to the Committee.

The following points were noted during discussion and in answer to Members' questions:

- Regulations require that the Council maintain an effective Internal Audit service and the Public Sector Internal Audit Standards require Ms Gibb to provide an annual opinion on the effectiveness of the control environment. This opinion is limited to the work carried out during the year.
- A self-assessment had been completed in line with the Public Sector Internal Audit Standards. Out of the 118 standards, the Council was in compliance with 111, partially compliant with 6 and there was an area of non-compliance in that Ms Gibb had responsibility for the Risk Management Function and therefore it was not wholly independent. Ms Gibb explained that where a conflict of interest may exist the audit would be carried out by an internal audit partner to ensure there was an appropriate level of independence.
- An independent assessment of compliance has been arranged with another Local Authority for Quarter 4 this year. **Ms Gibb would bring the findings back to this committee.**

ACTION: Ms Gibb

- Page 85 listed areas that fed in to the overall opinion based on the results of Internal Audit work.
- Page 86 summarised the **Unqualified Opinion**.
- Page 87 showed a small table containing summary comparison of the 2017/18 report ratings with those of 2016/17. There had been a reduction in the number of limited assurance reports. All the limited assurance reports related to the sample of selected schools for 2017/18. These schools had financial management and governance issues. These findings and lessons learnt were presented to Schools Forum and published on the Schools web.
- Page 89 showed a summary of the Professional Lead Assessments. There had been improvements of some of the limited assurance ratings. Appendix 1 showed the summary of audit actions of which there were 35 of high priority. All management actions have either been completed or are in progress.
- One particular risk highlighted was interim staff signing off expenses. This would be mitigated by managers ensuring that Bucks policies were applied. The Internal Audit service would ensure that this was embedded. An update would be included in the counter fraud report and brought to the Committee in September.

ACTION: Ms Gibb

11 2018/19 DRAFT BUSINESS ASSURANCE STRATEGY

Ms M Gibb, Head Business Assurance (& CIA), presented her report to the Committee and gave a verbal overview.

The following points were noted during discussion and in answer to Members' questions:

- The paper detailed the audit and risk management plans for 2018/19.
- Quarter 1 work was ongoing.
- The report was presented to Corporate Management Team in March 2018.
- Following meetings with the Senior Leadership Team, the Internal Audit Service took their wish lists of audit activity and compared these to the information on the risk registers.
- Concerns were raised in relation to the Improvement Programme in Children's Services. Internal Audit would have a pro-active role going forward and will work with the service to provide assurance over the quality of record keeping.
- Engagement from Children's Services with the Council's audit and risk function had improved and Children's Services would attend the Risk Management Group Meeting on 2 August.
- Children's Services improvement program would require input from the Risk Management Group. Auditors had identified all the significant risks and there was awareness within the service of what these were.
- The Chairman asked that Members ensure whenever possible attendance at future Risk Management Group meetings.
- Actions to address items in Grant Thornton's audit report would be covered in the key financial systems audit and the scope would include these to ensure that these had been actioned and documented.
- Page 109 showed savings/efficiency targets for quarter 4. Auditors would look at the processes from this year and review whether the improvement targets had been met.

The Chairman thanked Ms Gibb for her report.

RESOLVED

Members NOTED the report.

12 FORWARD PLAN

Ms Gibb provided an overview of the forward plan.

It was agreed that Members would continue the private meeting with the External Auditors; and meet with the Chief Internal Auditor, at a later date.

ACTION: Committee Support

13 DATE AND TIME OF NEXT MEETING

12 September 2018, 9.00am, Mezz 1

CHAIRMAN

