

# Minutes

## *REGULATORY AND AUDIT COMMITTEE*

**MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON TUESDAY 30 JULY 2019 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 2.02 PM AND CONCLUDING AT 4.05 PM.**

### **MEMBERS PRESENT**

Mr W Bendyshe-Brown  
Mr A Christensen  
Mr D Martin (Chairman)  
Mr P Martin  
Mr D Watson  
Ms A Wight

### **OTHERS IN ATTENDANCE**

Mr T Ball, Grant Thornton  
Ms J Edwards, Pensions and Investments Manager  
Ms M Gibb, Head of Business Assurance  
Ms S Harlock, Audit Manager  
Ms R Martinig, Financial Accountant  
Mr P McGovern, Senior Finance Officer  
Mr I Murray, Manager - Assurance, Grant Thornton Auditors  
Ms H Norman-Thorpe, Harrow Law  
Mr A Rush, Interim Deputy Director of Finance  
Mr C Sendell-Price, Head of Procurement  
Mr S Turner, Grant Thornton  
Mr L Whitehead, Finance Accountancy Lead  
Ms A Williams, Committee Assistant

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

Apologies were received from Mr R Ambrose, Ms S Ashmead, Mr T Butcher, Ms B Heran, Mr J Hollis and Mr S Lambert.

### **2 DECLARATIONS OF INTEREST**

There were none.

### 3 MINUTES

Members of the committee reviewed the minutes from the previous meeting and highlighted the following:

- Mr D Watson had submitted his apologies ahead of the meeting but these were not recorded in the minutes. This would be amended.

**ACTION: Ms A Williams, Committee Assistant**

**RESOLVED: The minutes of the meeting held on 21 May 2019 were AGREED as an accurate record and signed by the Chairman.**

### 4 STATEMENT OF ACCOUNTS

Mr A Rush, Interim Deputy Director of Finance and Ms R Martinig, Accountant presented the report and highlighted the following:

- The report followed directly on from the draft presented at the previous meeting.
- The report had not yet been audited completely, but would receive an unqualified opinion from Grant Thornton, External Auditors.
- Bucks County Council would receive a clear bill of health subject to the most recent Ofsted report.
- The accounts had not yet been signed off by Grant Thornton.
- There had been a number of factors that had contributed to the delay in the audit process and reduced the window for the accounts to be produced and audited.
- Due to financial reductions Grant Thornton had not had sufficient capacity to deal with issues presented.
- There would be no material difference to the overall opinion or changes to the statement of accounts.
- On the balance sheet the short term borrowings in the draft report of £47.945 million were reinstated to £35.945 million, resulting in a £12 million increase.
- Short term investments had decreased to £12 million due to re- categorisation.
- Bucks County Council was the accountable body for the Local Enterprise Partnership (LEP.) The decision had been made to classify the LEP as a fund liability as opposed to a reusable reserve.
- There was no impact on the general fund balance following the implemented changes.
- The balance sheet had previously listed pension liability at £753 million. This had been updated and increased to £769 million, following the recent McLoud judgement.

The following points were highlighted in response to questions raised and discussed by members of the committee:

- Due to the LEP not being a legal entity in their own right, Buckinghamshire County Council was the accountable body. The LEP was treated as a liability and not a reserve. This would continue going forwards.
- The £7.9 million in property rental income was recognised as general income. The write down from properties would have no impact over the general fund and would not affect the balance sheet due to the statutory override that could be implied.
- The level of usable reserves was at a sufficient level despite a 38% reduction. Reserves would fluctuate over time due to circumstances. There was no mandated guidance however Mr R Ambrose, Section 151 Officer had recommended that the figure should not fall below 5%.
- There was no information included in the report regarding the amount accumulated from council tax for surplus, as inclusion of this information was not a statutory duty.
- The majority of Buckinghamshire County Council's borrowing was fixed rate long term. This would significantly reduce the interest rates on borrowing.
- It was clarified that if any material changes were made to the final audited accounts during the audit process, then the report would again be presented to the committee. If there were no significant changes made then the accounts would be signed off by the Section 151 Officer and the Chairman and reported to the committee.
- The accounts report at the time of the meeting required to be approved and published without an audit opinion but including an explanatory note. A final version of the reports would be issued to the Chairman.

**ACTION: Grant Thornton**

**RESOLVED: Members of the committee AGREED to approve the statement of accounts.**

## **5 PENSION FUND ACCOUNTS**

Mr I Murray, External Auditor, Grant Thornton presented Grant Thornton's report and highlighted the following:

- An overview was given of the external circumstances causing the delay in the final opinion.
- The auditing process was on track to deliver an unqualified opinion.
- The main area of work was focused around property valuations.
- There had been a degree of uncertainty around the estimated figures provided by the actuary since the impact in the draft accounts was an estimate which did not include the impact of the McCloud judgement, since there was a remote possibility that there wouldn't be an obligation on the pension fund accounts.
- There could be a number of potential remedies following the outcome of the McCloud case. The case had been referred to an employment tribunal to determine the eventual remedy. There could be a number of outcomes and the revised estimated figures are based on one outcome.

- The estimate had been redone taking into account the McCloud case. Grant Thornton had used an in house actuary to speak to all audit providers and make sure that the approach was reasonable.
- A member stated that it had to be said the external audit of accounts was a shambles and it's clear that the PSAA process for audit services had created problems for many councils and external audit providers. The problem Buckinghamshire County Council had was not with our choice of auditors but with a procurement process that had badly let down everybody involved. The procurement process and remuneration levels for auditors needed to be urgently reviewed by Public Sector Audit Appointments Limited (PSAA) to allow the normal and timely process of auditing to be resumed. The chairman and all members agreed with this comment.

Mr A Rush, Interim Deputy Director of Finance and Ms J Edwards, Pensions & Investments Manager presented Buckinghamshire County Council's report and highlighted the following:

- Any significant changes to the report compared to the draft accounts presented in May 2019 were highlighted in blue.
- Extra content has been added. In addition to the percentage with the fund managers the value of the funds with the fund manager had been included.
- The service had increased the total liability of the pension fund in line with the McCloud case from £4752 million to £4791 million, totalling an increase of £38 million.
- Cash deposits had been reported as £127,559. This was an error identified by the external auditors and this would be amended to the correct figure of £121,408 before publication of the report.
- Related parties note 14 states Buckinghamshire County Council contributed £40.3 million to the pension fund, but it was anticipated that the figure would change in the final version.

Following the reports, the following points were highlighted in response to questions raised and discussed by members of the committee:

- The derivative policy was a small element of pension funds. The pension funds team would leave the decision to continue with the derivative policy in terms of investments down to managers' discretion.
- Administration costs that were incurred by Buckinghamshire County Council were recharged to the pension fund. There was an increase in performance fees on active management. If managers outperformed the market then they would receive a performance related fee.

**RESOLVED: Members of the committee NOTED the report.**

**RESOLVED: Members of the committee AGREED that the same process around Chairman and Section 151 Officer signing off the council statement of accounts would be applied to the pension fund accounts.**

## 6 VALUE FOR MONEY STATEMENT

Mr I Murray, External Auditor, Grant Thornton presented the report.

It was clarified that Grant Thornton had completed the value for money statement, but it would make sense to issue it along with overall opinion. Grant Thornton could provide an unqualified conclusion with the exception of the ongoing work with Children's Services in relation to Ofsted. A discussion took place around the Ofsted piece and the following points were highlighted:

- Ofsted findings had been examined backwards within a time frame of the 2018/ 19 financial year, though this was not necessarily an up to date reflection.
- Grant Thornton had liaised with members of senior management at Buckinghamshire County Council and had received feedback from the Children's Commissioner.
- There was evidence of progress, but the progress was not sufficient therefore Grant Thornton gave an 'except for' qualification.
- The Chairman stated there had been significant investment and overspend within the Children's Service during the year, therefore the committee agreed with the external auditors qualification.

Following the report, the following points were highlighted in response to questions raised and discussed by members of the committee:

- There was a risk of safeguarding against the potential misuse of SAP, but to maintain organisation efficiency it was beneficial to maintain SAP access.
- It was important to ensure appropriate authorisation and access with SAP.
- A typo in the report would be corrected: "qualified opinion" would be amended to "unqualified opinion."

**ACTION: Grant Thornton**

**RESOLVED: Members of the committee NOTED the report**

## 7 ANNUAL GOVERNANCE STATEMENT

Ms M Gibb, Head of Business Assurance presented the report highlighted the following:

- The statement had been presented at the meeting in May 2019. The main detail of the statement had previously been agreed by members of the committee.
- The statement reflected the knowledge of the organisation, and the authority was required to conduct a review to prepare the document.
- The statement would be signed by Leader and Chief Executive and would be published alongside the statement of accounts.
- The number of limited and partial reports needed to be updated to ensure consistency across the statements. 4 reports had been issued by internal auditors. It was clarified

that there were 9 partial reports and not 11. That was the only change made to the statement.

**RESOLVED: Members of the committee AGREED to approve the statement which would be signed off by the Chief Executive and the Leader of Buckinghamshire County Council.**

## **8 HEAD OF AUDIT ANNUAL OPINION**

Ms M Gibb, Head of Business Assurance presented the report and highlighted the following:

- The purpose of the report was to provide an opinion of the adequacy of the control environment.
- The process complied with the public sector internal audit standards.
- The main focus was placed on the key risk areas across the organisation.
- Two areas had fallen outside of the public sector internal audit standards which included Ms Gibb's role holding responsibility for operational management within the organisation, and not having a quality of assurance improvement plan in place. Risk management processes were in place to monitor this, and a quality assurance improvement plan was in development. An internal review had been carried out which showed that the organisation complied with 111 standards out of the total 118 and had partial compliance with 6 of those standards.
- The Head of Audit overall opinion was based on a number of elements which were listed in the report.
- The opinion did not imply that all risks related to the organisation have been reviewed. It was highlighted that absolute assurance could not be given, but reasonable assurance over the adequacy framework could be provided.
- The governance framework continued to strengthen with good accountable values demonstrated across all units.
- The financial management improvement programme had been successful in developing frameworks and robustness of the financial control framework.
- The level of assurance opinion was "partial." There were no comparatives to the opinion, but this could be provided in the next financial year. Benchmarking from other councils was based on the financial year 2017/18.
- In regards to implementation of audit actions, over the financial year 373 management actions had been followed up and 84% were completed. A small number of the actions were overdue, but had progressed since the production of the report.
- The risk management process was well embedded.
- Reasonable assurance could be given that there were no major weaknesses.

Following the report, the following points were highlighted in response to questions raised and discussed by members of the committee:

- The identified control weaknesses did not expose the organisation to a high level of risk.

- It was challenging to bench mark against other authorities without complete auditing plans as different organisations may audit different things.
- The areas examined were based on risk registers, knowledge of the business and communication with the Section 151 Officer.
- A significant amount of focus of the audit plan was within Children's Services. Areas of fraud were built into the plan.
- The financial management improvement project was ongoing, with the aim to improve collaborative working with the finance service and clear accountabilities.
- Governance was provided through the Corporate Management Team (CMT.) Quarterly reports were provided which established and introduced a financial accountabilities framework.
- SAP would continue to be used in the unitary organisation.

**RESOLVED: Members of the committee NOTED the report.**

## **9 STANDING ORDER EXEMPTIONS AND BREACHES**

Mr C Sendell-Price, Head of Procurement presented the report and highlighted the following:

- An overview was given of the process around exemptions.
- The service could exempt if an urgent solution was required.
- Some contracts were being extended to accommodate the unitary programme.
- There was a high amount of assurance over the process of approval. It was highlighted that exemptions were a useful tool in making savings.
- Breaches were negative, meaning that the organisation was in breach of legislation.
- Within the last financial year, 15 exemptions were processed and 14 were completed

Following the report, the following points were highlighted in response to questions raised and discussed by members of the committee:

- Any exemption that exceeded £50,000 must be approved by the relevant executive director of the business unit. The majority of exemptions were over the £50,000 bracket.
- Exemptions under the value of £25,000 were more flexible.
- Exemptions were only agreed if there was a value for money reason.
- The Mystery Shopper Scheme had been changed to the Procurement Review Service. This was useful if the organisation failed to deliver.

**RESOLVED: Members of the committee NOTED the points presented in the report.**

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

11<sup>th</sup> September 2019, 10:30am, Mezzanine Room 1

## **11 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)

**CHAIRMAN**