

MINUTES of the meeting of Audit and Corporate Governance Committee held at The Assembly Hall, Town Hall, Hereford on Monday 28 September 2009 at 3.00 pm

Present: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice Chairman)

Councillors: JHR Goodwin, PJ McCaull and AM Toon

In attendance: Councillors PJ Edwards and WLS Bowen

The Chairman welcomed the new Head of Financial Services, Anne Phillips, to the meeting. Also, on behalf of the Committee, he thanked Heather Foster for her work over the years and in the interim as Acting Head of Financial Services.

13. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors MJ Fishley and R Mills.

14. NAMED SUBSTITUTES(IF ANY)

There were no named substitutes declared.

15. DECLARATIONS OF INTEREST

There were no declarations of interest made.

16. MINUTES (Pages 1 - 2)

The Vice-Chairman drew Members' attention to the Review of Procurement Briefing Note attached to the Minutes as Appendix 1 which was, in his view, not the Briefing Note which had been circulated at the meeting on 19 June 2009. He produced a copy of the Briefing Note which he had received at that meeting and suggested that his copy should replace the copy attached to the Minutes.

The Vice-Chairman also referred to the penultimate paragraph on page 2 of the Minutes relating to paragraph 32 of the Commission's report and informed the Committee that an answer had not yet been received from the Legal Practice Manager. He requested that the Legal Practice Manager expedite the matter.

RESOLVED: That the Minutes of the meeting held on the 19 June 2009 be approved as a correct record and signed by the Chairman subject to the following amendments:

- (i) **the Review of Procurement Briefing Note attached to these Minutes replaces the Briefing Note attached to the 19 June 2009 Minutes;**
- (ii) **the second line in the penultimate paragraph on page 2 be deleted and replaced with the words 'particular that the submission to Members for approval of the selected option was' ;**

- (iii) **the word ‘ analysis ‘ be deleted from the second line in the first paragraph on page 3 and replaced with the words ‘analyses and‘ ;**
- (iv) **the word ‘ analysis ‘ be deleted from the second line in Resolution (iii) on page 4 and replaced with the words ‘analyses and‘ ; and**
- (v) **the words in Resolution (iii) be added after the word ‘and’ in Resolution (ii) on page 6 and the semicolon in the second line in Resolution (ii) be deleted.**

17. ANNUAL GOVERNANCE LETTER

The Director of Resources presented a report which introduced the external auditor's Annual Governance Report for 2009. The external auditor's report set out

- (a) their opinion on the financial statements for 2008/09 approved by the Committee on 17 June 2008.
- (b) their opinion on the Council's arrangements for securing value for money.
- (c) their recommendations for further improvements in the Council's governance arrangements arising from their audit work.

Mrs L Cave and Mr T Tobin, representing the Audit Commission, attended the meeting to present the Annual Governance Report 2009.

Mrs Cave apologised for the lateness of the report. She informed the Committee that it was the Commission's final report on her audit work for 2008/09. She drew Member's attention to key messages which were all positive and were set out on pages 4 and 5 of the report. With regard to the Financial Statements, Mrs Cave thanked the Director of Resources and his staff for their work on these matters. She stated that there were some issues but nothing of a fundamental nature had been identified and all had been satisfactorily resolved. Mrs Cave brought to Committee's attention the significant reduction in the level of triviality for 2008/09 audit work that affected the report. The previous year had a much higher level and so the issues raised would not necessarily have been reported under the former regulations governing their work on final accounts. The issues that she had felt strongly about had been changed by management. She emphasised that the next steps were to formally consider the issues raised in the report and to agree the issues in the Financial Statement. In referring to page 7 and the errors in the Financial Statement, she was of the view that the writing off of debtors of around £500,000 was an issue which should be looked at more closely next year. In paragraph 8 another significant issue related to the non material insurance provision of £1.79 million. In the balance sheet £1 million of the total was in respect of insurance claims but £730,000 did not comply with the definition of a provision under accounting standards (FRS12). There were three other non material errors set out in Appendix 2 which had not been amended by management.

Mrs Cave made reference to the weaknesses in internal control most notably with regard to the authorisation of creditor payments and stressed that it was important that these are addressed.

With regard to teachers' pension liabilities, paragraph 13 refers, although these had been excluded from Council accounts, the Council should be accruing for additional

benefits such as added years as a liability. She stated that it was not likely to be material but should be included in the accounts next year.

Mrs Cave stressed the need for the Council to consider bringing forward the implementation of a new capital accounting system particularly with the International Financial Reporting Standards (IFRS) being operative next year.

With regard to Value for Money, she informed the Committee that she would be issuing an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. She referred to the draft letter of representation, Appendix 3 to the report, and suggested that a paragraph should be added stating that unadjusted errors remained so because management believe that the errors individually and collectively are immaterial. She stated that the Action Plan set out in Appendix 4 had been agreed by the Director of Resources and that it was gratifying that a consensus had been reached.

The Chairman made reference to the fact that Herefordshire Council's pensions were controlled by Worcestershire County Council but that although this Council's officers attended the meetings where pension matters were considered, the County Council precluded Member representation from this Council. Mr Tobin informed Members that this was a national issue and that there were moves to address this problem. The Vice-Chairman referred to page 8 of the report and noted the remedial action being taken and to concerns raised regarding the weaknesses in authorisation controls. He was not convinced that the weaknesses had been sorted out and suggested a report to the next meeting on the issue.

The Director of Resources informed the Committee that he could not agree that there was a serious systemic problem with regard to the creditors authorisation controls (CAC). A clear email on this issue had been sent indicating payments would not be processed if an authorised signatory had not signed the document. The training issues with regard to the creditor authorisation controls formed part of financial training. He also referred to IFRS and Herefordshire Connects, and informed the Committee that a date for the replacement of the CEDAR accountancy system had not yet been agreed. The Director agreed to bring forward a report on creditor authorisation.

The Chief Internal Auditor informed Members that as part of the audit review, the creditors system was part of the review and that the processes with regard to the CAC's were being monitored.

The Vice-Chairman stated that he was not content that departments should be relying on Internal Audit to deal with issues on CAC matters and that departments should addressing such problems beforehand. He further referred to the draft letter on page 17 and that he had been pressing for training in fraud and management. He made particular reference to the Police Authority training in this area and commended it.

The Chief Internal Auditor informed Members that although he had made Members Services aware of Police Authority training for Members in fraud and management, he would liaise with the Vice-Chairman and ensure that arrangements are made on this issue.

A Member expressed concern that there did not seem to be an overall picture on the current position on Council loans. The Director of Resources informed the Committee that there was a Treasury Management Strategy report at the year end which gave details of such matters. He would however provide the Committee with a briefing note as at the end of September.

RESOLVED: That

- (i) **the Audit & Corporate Governance Committee agrees the proposed action plan as set out in Appendix 4 of the Annual Governance report, in response to the recommendations contained in the Annual Governance Report for 2009;**
- (ii) **the Audit & Corporate Governance Committee approves the Draft Letter of Representation, Appendix 1 of the Annual Governance Report 2009 refers, for signature by the Chair of the Committee and the Director of Resources subject to the addition of a paragraph stating that errors which have not been adjusted because management believe that the errors individually and collectively are immaterial; and**
- (iii) **the Director of Resources to present a report to the Committee on creditor payment authorisation.**

18. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Acting Head of Financial Services presented a report on the project plan for implementing International Financial reporting Standards (IFRS). She emphasised that the Council had adopted the Chartered Institute of Public Finance and Accountancy recommended format for developing the project plan.

In answer to the Vice-Chairman's questions, the Acting Head of Financial Services informed the Committee that with regard to paragraph 5 in appendix A, identifying systems and procedural changes were being carried out manually. Regarding paragraph 8 in Appendix A, these matters were up to date.

A Member referred to the fact that there had been two reviews of Strategy but that despite these reviews, the Member was confused regarding the Herefordshire Connects position. The Director of Resources informed the Member that with regard to the Herefordshire Connects and ICT position, there was funding and cost information available. He would send the Member a copy of a letter which had been sent to another Member recently which contained that information. He further informed Members that an integrated ICT system had been investigated and that Management had settled on the Aggresso system. However, shared Partnership services were also being investigated in this area and that it was only proper to reflect the way forward for the future whilst trying to get the benefits out of the Herefordshire Connects Programme.

The Acting Head of Financial Services informed the Committee that the Aggresso shared services issue was separate to IFRS.

The Vice Chairman indicated that it was his understanding that the Council did not know of the net resource requirements arising out of the IFRS implementation.

The Acting Head of Financial Services stated that employee benefits were the only financial impact with the introduction of the IFRS which would need to be taken into account in budgeting.

RESOLVED: That the Committee note the report.

19. AMEY SERVICE DELIVERY PARTNERSHIP COST CONTROL

The Highways Network Manager presented a report on the provisions in place for the control of costs in relation to the Service Delivery Partnership with Amey. He made reference to the key points summary on page 17 and drew the Committee's attention to the key considerations with Amey which set out in detail the following:

- (i) Existing Contracts with Amey
- (ii) How the payment mechanism in the existing contract services contract can be used to control costs and the support delivery of desired outcomes.
- (iii) How the payment mechanism in the existing consultancy services contract can be used to control costs and the support the delivery of desired outcomes.
- (iv) Existing Payment Processes
- (v) Improvements Secured through Service Delivery Review Negotiations
- (vi) Payment Process for Managing Agent Services
- (vii) Rationale for the Selection of Payment Mechanisms
- (viii) Future Financial Reporting Requirements
- (ix) Value for Money Review as part of the Annual Service Plan
- (x) Effective Strategic Client Team

The Chairman referred to instance where a member of the public might feel that a job could have been carried out for less money and asked how the more expensive job could be defended. The Highways Network Manager informed Members that there will be occasions when jobs for projects could be carried out for less money. However, the overall cost of a service would need to be evaluated and it would be necessary to ensure that corporate standards are met and the risk element has been properly managed by the Council and partner. It would also come down to overall value for money.

The Director of Environment and Culture informed the Committee that where the Council passes the responsibility for road conditions to the partner, the partner would receive a lump sum of money and if jobs were not done properly, the partner would have to go back and do the job again at no extra cost to the Council.

A Member asked if the parish maintenance plan still existed and how would the partner get feedback from the parishes.

The Highways Network Manager stated that the Parish maintenance plan was still in operation and that arrangements were in place so that parishes would receive routine maintenance visits. In terms of feed back from parishes, all parishes had received an Amey contact list and the parishes would complete a monthly return which would be sent direct to Amey. He would circulate the Committee with a copy of the list.

A Member asked that the position of Property Services be clarified. Also, how did the partner select contractors since there was not a section in the report explaining this issue and how were costs arrived at for work carried out by subcontractors. The Member also asked if Internal Audit was satisfied that Amey were doing sufficient work

themselves and where contractors did not satisfy the Council's criteria, would they go direct to Amey to do the work.

The Director of Environment and Culture informed the Committee that Property Services had been excluded from the review by the previous Director of Resources.

The Chief Internal Auditor informed Members that there was some work to be carried out around Amey on the Audit Plan. There was a line where Audit Services would carry out a review around Amey and this would pick up the concerns of Members.

The Highways Network Manager stated that the main contract with Amey stipulated how subcontracted work is priced therefore, the same transparency would be seen with the subcontractors. Because of the fact that in many instances the pricing was derived on a schedule of rates, the price for works was set by contract and Amey take on the risk and must supply financial information as if they were carrying out the work. Also, Amey must display to the Council the direct cost of employing the subcontractor which indicates the price by unit cost.

The Director of Resources informed Members that as a consequence of Property Services being excluded from the review, he had carried out a management review and he had carried out a repositioning of Property Services in that any review should be done by Council staff. However, with shared services and value for money being issues, the repositioning of Property Services would not be carried out until those issues were reviewed.

The Vice-Chairman referred to the Amey in-house value for money report which would go to the Strategic Partnership Board. He requested an explanation of the provision and process for periodic bench marking of consultancy and works delivery cost against generally prevailing external rates. The Director of Environment and Culture indicated that he would provide the information following the meeting.

The Vice-Chairman also referred to potholes and the supervision of such work and asked if there was a quality control system in place. The Highways Network Manager stated that Amey had to do this through performance indicators. He did not see the role of his team as supervisory in that work. His team had the ability to carry out any audit inspection on Amey's results. If areas such as potholes did show problems there would be a review and appropriate investigations.

The Chairman requested assurance that the Council was getting value for money.

The Director of Environment and Culture informed the Committee that it was important to note that to supervise everything was expensive. What was in place regarding the receipt of endless complaints would ensure that Amey would not get an extended contract. The Council also had the ability to look at any issue but the Council did not have the resources to constantly supervise all areas where issues may arise.

The Vice-Chairman requested that the officers must make it plain to all Members and Parish/Town Councils Members that the Council cannot look at all the issues and, therefore, that the public must be the eyes and ears of the Council.

With regard to a Member's question relating to the Council's 20% capital share holding in Amey, the Director of Environment and Culture informed Members that the original brief was to dispose of the 20% stake but at the moment it was clear that it was to the Council's advantage to hold onto the 20%.

A Member stated that at a Scrutiny Committee meeting that morning, it had been stated that there was a wealth of Architects in Herefordshire who were not being used on contracts in the county.

The Director of Environment and Culture informed Members that specialised Architects were employed to carry out specialist work.

A Member asked about the updating of the Amey work schedule and was the schedule flexible to take on board work from Section 106 agreements. The Highways Network Manager stated that whilst the work programme was drawn up at the beginning of the year, the programme was subject to change which would allow Section 106 matters to be taken into the programme as soon as possible.

In answer to a Member's question, The Highways Network Manager informed Members that the arrangements with Amey are very focussed in that when a job is specified it would be on quality as well as quantity and, therefore, outcome. He gave an example with regard to highway matters that specifications would build in like for like repairs.

The Vice-Chairman referred to paragraph 34 of the report and the opportunity to review invoices and requested that Internal Audit ensure the adequacy and competency of the invoice arrangements. The Chief Internal Auditor gave an assurance that would happen.

RESOLVED: That the report be noted.

20. MAJOR PROJECTS STATEMENT

The Director of Resources presented a position statement on major projects being undertaken by the authority. He drew Member's attention to the report definition in paragraph 4 of the report. He also made reference to the increase in the programme forecast for 2009/10 which was due to slippage in the previous year and the reasons for the slippage. He informed the Committee that a significant proportion of the programme was central government funded.

RESOLVED: That the report be noted.

21. INTERNAL AUDIT JOINT WORKING PROTOCOL

The Chief Internal Auditor presented a report which was circulated at the meeting and is attached to the Minutes, on the Audit Protocol for joint working with CW Audit Services, (Primary Care Trust (PCT) Auditors). He informed Members that the report sets out the working arrangements with the PCT. He informed the Committee that if the PCT auditors worked for the Council they would follow the Council's rules, and vice versa if the Council's auditors worked for the PCT.

RESOLVED: That the report be noted.

22. DATA QUALITY UPDATE

The Head of Policy and Performance presented an update to the Committee on the progress now being made against key elements of the rolled forward data quality action plan. He informed the Committee that the report was outside the six monthly cycle for such reports because the Committee had requested an early report. He drew Members'

attention to the improved progress on the two issues set out in paragraph 3 of the report that were highlighted at the last meeting. Both tasks had now been completed and the officers would now be able to carry on with data quality training.

The Vice-Chairman asked why a list of staff requiring data quality training had not been included with the report. The Head of Policy and Performance informed the Committee that the list was large and therefore he did not feel that such a list should be included. At the request of the Vice-Chairman, he informed the Committee that the target was 120 staff to be trained this year. So far 90 staff had received training. At that rate it would take over 4 to 5 years to train the approximate 600 staff across the organisation who were a priority. There was, however, an issue with data sharing partners in that out of 25 who had been approached regarding data quality policies only 14 had responded. The non respondents would be chased for a response and this would be included in the six monthly report to the Committee.

The Chairman was of the view that the responses were not good enough and asked that the officers write on his behalf to request an immediate response.

The Chairman of the Strategic Monitoring Committee offered his support to the Chairman's letter.

RESOLVED: That

- (i) the progress being made on the areas of the data quality action plan where the Committee had particular concerns be noted; and**
- (ii) the Head of Policy and Performance write a letter on the Chairman's behalf to the data sharing partners to request an immediate response in respect of data quality training.**

The meeting ended at 3.55 pm

CHAIRMAN

**Audit and Corporate Governance Committee
Review of Procurement Briefing Note**

1. The report notes issues around skills development that is being progressively addressed. Specific procurement training commenced in early 2009 and is an intensive course for 20 officers across the structure, with the aim of creating a core of expertise within directorates.
2. The central procurement function now has funding for three officers, following the 2009/10 budget setting process.
3. The central project management team is being used for major projects, but we do need to develop the links between procurement activity and project management.
4. E-purchasing will form part of the new finance system. It would not be cost effective to introduce this into the current system because it is about to be replaced.
5. The Review of Procurement Report prepared by the Audit Commission includes a number of statements in relation to the Service Delivery Review of the Council's Strategic Partnership with Amey. The report recognises that the review was a "snapshot" in time part way through the project and officers have agreed the action plan contained in the report to ensure the Service Delivery Review is completed successfully. However, a number of the statements in the report are not accepted and prejudge the outcome of negotiations that had not yet started. This briefing note responds to some of these key points within the report.
6. Comments made in paragraphs 13 and 30 and elsewhere suggest that the management of the Service Delivery Review project was unclear and that resources were not identified for the project. This is not the case. The management of the renegotiation project and the review has been clear from the start. The Director of Environment and Culture is the project executive with overall responsibility and has chaired a project board with clear roles and responsibilities. The project has been led by the Assistant Director Environment and Culture (responsible for Highways) and sound project management and resource has been provided from the Council's Corporate Programmes team, in accordance with good practice highlighted elsewhere within the report. Resources of £200,000 were allocated to support the renegotiations and this has enabled the use of external procurement and financial analysis expertise. Reference is also made to issues being unresolved or incomplete at the time of the audit. This is entirely understandable given the stage at which the project had reached when the audit was carried out prior to commencing negotiations with Amey.
7. Paragraph 32 refers to the reports to Members concerning the review. Environment Scrutiny Committee and Strategic Monitoring Committee considered detailed and comprehensive reports prior to a full report being presented to Cabinet in September 2008. This report contained all necessary information to enable a decision to be taken to authorise negotiations to commence. A subsequent report following initial negotiations was considered by Cabinet in January this year to seek approval to complete detailed negotiations.
8. The report makes reference in a number of paragraphs to perceived deficiencies in the current contractual arrangements and future approach (particularly paragraphs 35 to 39). Given that the audit was undertaken prior to the commencement of negotiations, these comments appear premature in commenting upon the future arrangements but do highlight areas that the renegotiations have been seeking to address and improve.
9. Paragraphs 40 and 41 refer to the management of risk. A risk register for the project has been used throughout the project and regularly reviewed by the project board to ensure risk is being effectively managed. Mitigation measures have been implemented where necessary including the utilisation of external procurement and financial analysis expertise to support the

renegotiations. The future management of risk is clearly important and this was included in the action plan for concluding the renegotiations.

10. Reference is made to timescales having slipped in relation to the review. Whilst it is accepted that optimistic timetables have been set, the Director has always recognised the importance of ensuring the best outcome for Herefordshire. As with all commercial negotiations, where allowing additional time can achieve a better result this has been considered by the project board and appropriate decisions taken. The proposed new arrangements with Amey could be in place for a further 14 years and as such it is crucial that the right foundations are put in place for a successful long-term relationship that will deliver quality and value for money for Herefordshire.