

**MINUTES of the meeting of Audit and Governance Committee held at Grand Jury Room, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Monday 29 September 2014 at 10.00 am**

**Present:** Councillor JG Jarvis (Chairman)  
Councillor EMK Chave (Vice Chairman)

Councillors: CNH Attwood, ACR Chappell, PGH Cutter, Brig P Jones CBE, NP Nenadich, AJW Powers and J Stone

**In attendance:** Councillor Morgan

**Officers:** Bill Norman (Assistant Director Governance), Peter Robinson (Section 151 Officer), Phil Jones (Grant Thornton), Terry Tobin (Grant Thornton), Jacqui Gooding (South West Audit Partnership), Martin Savage (Management Accountant)

**18. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Bowen, Hubbard and McCaull.

**19. NAMED SUBSTITUTES (IF ANY)**

In accordance with paragraph 4.1.23 of the Council's Constitution, Councillor AJW Powers attended the meeting as a substitute Member for Councillor MAF Hubbard and Councillor ACR Chappell attended the meeting as a substitute Member for Councillor WLS Bowen.

**20. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**21. MINUTES**

RESOLVED: That the minutes of the meeting held on 9 September 2014 be confirmed as a correct record and signed by the Chairman.

**22. PROGRESS REPORT ON 2014/15 INTERNAL AUDIT PLAN**

Members were presented with a report from the internal auditors, South West Audit Partnership (SWAP), giving an update on the progress of internal audit work and to bring to their attention any key internal control issues arising from the work they have completed up to 31 August 2014.

In reply to a members query SWAP confirmed 'non opinion' is a term used to describe an audit where an opinion is not offered. Examples included Follow-Up Reviews, Grant Sign-Offs or specific audits where management have identified a potential issue and have sought Audit assistance.

SWAP confirmed that two new members of staff have been employed, one of whom is a very experienced auditor who has previously worked with Herefordshire Council.

In reply to a member's query, SWAP also went on to explain the hierarchy of risks that they use to make their conclusions.

**Resolved:**

**The contents of report are noted.**

## **23. REVIEW OF THE COUNCIL'S AUDIT FINDINGS REPORT FOR 2013/14**

Grant Thornton UK LLP (the Council's external auditors) presented members with the Review of the Council's Audit Findings Report for 2013/2014.

It was confirmed that this year the audit process went well; and was aided by having draft accounts and working papers of an improved quality compared with previous years. This has improved the transparency of the accounts. However, there is still room for improvement. Officers have been made aware of this and accept the points made.

### Audit Findings

Grant Thornton UK LLP expect to provide an unqualified opinion on the financial statements.

It was explained to members that the report shows the main financial risks the auditors had identified as a result of the 2012/13 audit and the conclusions they had reached. They show improvements in all of the areas previously rated as amber or red. All of these areas now have a green rating.

A member asked about the assessment rating of the council's reserves, which had been red in 2012/13 and was now green. In response, the Section 151 Officer confirmed that the forecast 12 months ago was for a large overspend. This would have taken the council into its minimum working balance, which is 3% of turnover. At that time there was no clear financial plan to replenish the reserve. This led to the previous red rating.

Today there is a clear financial plan in place and an increase in the reserves held.

Grant Thornton UK LLP confirmed that, when deciding their rating, they look at the plans a Local Authority has in place and the reserves held. The rating levels are set each year. They confirmed that budgetary control systems are much improved this year and all of the areas of risks they would expect to be identified have been. It was also confirmed they make comparisons with other Local Authorities and, this year, there was a more positive comparison with Herefordshire Council being at a medium point when compared to other councils.

The Section 151 Officer confirmed to members that there are also contingency monies within the budget, held for unforeseen issues such as Colwall School, which mean the reserves do not have to be used in these circumstances. If there is a severe winter, further reserves could be accessed.

With regard to the 3% minimum working balance, it was confirmed it is Herefordshire Council's own policy to set the limit at this amount. Grant Thornton LLP UK confirmed this is a typical position for Local Authorities.

### Value for Money

Grant Thornton UK LLP confirmed the Value for Money conclusion is unmodified. They confirmed there is now a stronger financial plan in place which has been a positive step.

There is still scope to improve how savings schemes are project managed.

It was confirmed to members there had been five specific risks identified when they made their Value for Money conclusion. They had been the Public Information Disclosure Act: CRM review (PIDA), the Better Care Fund, the Energy from Waste project (EfW), Adult Social Care and safeguarding of children.

With regard to EfW, Grant Thornton UK LLP confirmed they had received an objection to this matter from a member of the public and when presenting this item needed to ensure their objectivity. The summary of the findings of this matter were read directly from the published report.

In reply to a member's query, Grant Thornton UK LLP confirmed that the unqualified opinion had been reached having considered all matters, including the EfW, and they considered the appropriate arrangements were now in place.

Grant Thornton UK LLP felt it was a positive step that this committee is setting up a Working Group following the PIDA report as the scrutiny of the Audit and Governance Committee is needed to provide assurance of the council's response to the auditors' work. They confirmed that, as auditors, they cannot be advisors but can give constructive feedback.

The Committee were reminded by the Chairman that there were currently four members of the Working Group and a fifth is needed.

Further clarification was sought from members concerning the Better Care Fund. Grant Thornton UK LLP confirmed that it is still early days for what is a, national agenda led, major project. Adult Social Care and the NHS cannot operate without integrated services and a community infrastructure needs to be created. The progress made so far was commended, but there is still a long way to go. This was confirmed as the same position as most other Local Authorities.

Grant Thornton UK LLP confirmed the reason they have not been able to formally conclude the audit and issue an audit certificate is due to the objection they have received from a member of the public concerning the EfW part of the report.

**Resolved:**

**That the report be noted.**

## **24. STATEMENT OF ACCOUNTS**

The Section 151 Officer presented to members the 2013/14 Statement of Accounts and Annual Governance Statement and action plan.

### Statement of Accounts

The Statement of Accounts must meet with international financial standards and are laid out according to these requirements.

The key areas identified were that

- Although Adult Social Care did overspend, due to savings in other areas the result was a break even position.

- The general reserve funds were at £5.1million which exceeds the minimum policy requirement.
- Reserves for specific items of £23.9m had been set aside.

Each part of the Statement of Accounts was presented to the committee in turn.

The position on the Balance sheet showing an increase in Net Assets was highlighted to members. It was confirmed the previous reductions were due to schools taking on Academy status, the increase this year was partly due to the increase in reserves. The decrease in Pension liability was also highlighted.

With regard to Academy Schools, it was confirmed that the authority, although technically still owning the land, have no control over it for a number of years. Therefore, the asset will appear on the schools' balance sheets.

Concerning the Pension deficit, the Section 151 Officer confirmed that a lot of time has been spent with the pension actuary, Mercer, discussing the pension deficit. Triennial valuations take place to assess the amount that needs to be set aside.

Concerning point 2.4.2 of the report, members asked the Section 151 Officer to provide details of the 'Other Small Schemes' listed in the Summary of Capital Expenditure. The Section 151 Officer confirmed this will be provided to the next meeting of the committee. (UPDATE – this information was emailed to members of the committee on 17 October 2014)

Concerning officers' remuneration, members requested officer's supply details of how many staff are earning less than £50,000 per annum, in order to make a comparison with the number receiving over this amount. The Section 151 Officer confirmed this will be provided to the next meeting of the committee. (UPDATE – this information was emailed to members of the committee on 17 October 2014)

In answer to a query about the term 'Members Allowances,' the Assistant Director Governance, confirmed this is how the payments are referred to in the constitution. The Chairman confirmed this matter could be discussed when the committee next discuss the constitution.

Concerning a query about the apparent drop in the Collection Fund, it was confirmed that this is due to the change in Council Tax Benefit to the localised Council Tax Reduction Scheme.

### Annual Governance Statement

The Section 151 Officer advised that the Annual Governance Statement was in a different, stronger, format this year and was more action focused.

The six principles of good governance were explained, highlighting how Herefordshire Councils principles link to them. Taking these six principles an Action Plan has been written which has identified 12 areas, showing what action is to be taken, the lead officer and when action is due.

It was pointed out that para 17 on page 4 of the report should read

The Audit and Governance Committee's terms of reference encompass responsibility for review of the constitution and in 2014 a cross party working group *is to be* established to inform this work reporting to the committee.

Members of the committee welcomed the Action Plan and the following points were made in discussion.

- Having a rolling programme of actions in each meeting works well.
- A timetable of work should be drawn up based on the dates the actions are due to be completed.
- Changes in membership of committees should not mean good practices should be lost.
- Chairs of committees should work closely together to make sure areas of work are not either ignored or duplicated.
- Information needs to be passed to members early.
- Members should feel responsible for the action plan as well as officers.
- When creating working groups the committee should look outside for other members with relevant experience.
- Challenges will face the county in the future with regard to having an aging population. Pressure will be in place to recruit and retain staff.

**Resolved:**

**THAT the Audit and Governance Committee**

- (a) Approve the 2013/14 Statement of Accounts;**
- (b) Agree the draft letter of representation is signed by the Chair and Chief Finance Officer; and**
- (c) Approve the Annual Governance Statement.**

## **25. WASTE VFM**

The Grant Thornton UK LLP members of staff left the meeting before the presentation of this item.

The Section 151 Officer presented members with the conclusion of the waste PFI contract variation value for money assessment provided by Deloitte.

He pointed out that the recommendation being made to the committee was to note the value for money conclusion of the report.

The waste PFI contract variation had been approved by Cabinet in December 2013. Cabinet had taken into account the work done by Deloitte up to that point with regards to value for money.

The report provided to Committee concluded that the value for money provided by the chosen option is better than that reported to Cabinet in December 2013.

Members queried how this report sits against the External Audit report previously presented to the committee in this meeting. The Assistant Director Governance confirmed the Grant Thornton UK LLP report was written based on the information since December 2013. It was identified in December 2013, by Cabinet, that there was a potential risk concerning the value for money. However, the Deloitte report presented to this committee confirms that value for money has been obtained, and is better than anticipated in December 2013.

Members brought up in discussion the findings of the recent Public Accounts Committee held by Members of Parliament. That committee had suggested that local authorities

were not 'intelligent customers' due to the lack of resources they are able to put into procurement.

The Assistant Director Governance confirmed that the original waste contract was one of the early PFI contracts entered into in 1998. However, the issue for Cabinet in December 2013 was to choose an option for its future and the report by Deloitte confirms the option chosen gives value for money.

It was confirmed to the committee that both Herefordshire and Worcestershire Councils received materially identical cabinet reports when they make the decision in December 2013.

In reply to a member's question concerning the council's position as lender The Assistant Director Governance confirmed the interests of the councils as lender had been recognised throughout the contract negotiations in contract variation and had been overseen by separate specialist London solicitors.

Following a discussion concerning how the EfW plant will affect recycling levels, the Section 151 Officer confirmed the amount of waste currently sent to landfill is significantly higher than the amount we have committed to send to the EfW plant. The Assistant Director Governance went on to confirm that the council will have a commitment to provide waste to the EfW plant but, if the level of waste produced by the county reduces, there will be the opportunity to sell our capacity to others.

Further discussion was held between members concerning the history of the waste contract and how previous decisions had been reached to bring the council to the current position.

Concerning how this committee fits within the governance arrangements for the contract, The Assistant Director Governance advised that the Terms of Reference for the Audit and Governance Committee were a result of a requirement by Mercia's (the council's waste contractors) lawyers. It was to ensure the council's position as lender was given appropriate importance within the governance structure and had been an important issue for Mercia.

Members felt the flow chart at Appendix C of the report did not show this adequately. The Section 151 Officer confirmed he would inform Deloitte that this needs to be amended to show the Audit and Governance Committees place within the governance structure.

**Resolved:**

**THAT the Audit and Governance Committee note the value for money conclusion within the major constraints included in the original contract and the default penalties.**

**26. FUTURE WORK PROGRAMME**

The committee agreed the following item needed to be added to its future work programme:

- The committee is to look at the council's constitution at the next meeting (26 November 2014)

**27. DATE OF NEXT MEETING**

26 November 2014

The meeting ended at 12.50 pm

**CHAIRMAN**