

**Minutes of the meeting of Audit and governance committee held at Council Chamber, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Wednesday 20 September 2017 at 2.00 pm**

**Present:** Councillor PD Newman OBE (Chairman)  
Councillor ACR Chappell (Vice-Chairman)

**Councillors:** CR Butler, EPJ Harvey, RJ Phillips, AJW Powers and J Stone

**In attendance:** Councillors WLS Bowen, J Hardwick, MD Lloyd-Hayes and DB Wilcox

**Officers:** Annie Brookes, Andrew Lovegrove, Alistair Neill and Claire Ward

**223. APOLOGIES FOR ABSENCE**

Apologies were received from Councillor LC Tawn.

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

In accordance with paragraph 4.1.171 of the council's constitution, Councillor AJW Powers attended the meeting as a substitute member for Councillor LC Tawn.

**225. DECLARATIONS OF INTEREST**

None.

**226. MINUTES**

**RESOLVED:**

**That the minutes of the meeting held on 4 July 2017 be confirmed as a correct record and signed by the chairman.**

**227. QUESTIONS FROM MEMBERS OF THE PUBLIC (Pages 11 - 12)**

Questions were received from members of the public. Details of the questions and the answers given are attached as appendix 1 to the minutes.

## **228. QUESTIONS FROM COUNCILLORS**

No questions were received.

## **229. AUDIT FINDINGS REPORT 2016/17**

The external auditor introduced the audit findings report and highlighted the following issues.

It was explained that the external auditor was not yet able to issue a final opinion as there were outstanding issues in relation to Hoople pensions liabilities and the valuation of the Energy from Waste plant which was to be provided by Worcestershire County Council. These were technical accounting issues and it was hoped that these would be resolved within a week of the meeting. A third issue, around property plant and equipment valuation, had now been resolved.

The audit had been more challenging this year and there had been more errors than in previous years, partly because of changes and absences in senior staff. Lessons identified included a need for a better quality review of the accounts when first produced to correct obvious errors and omissions. Responses to audit questions had not been as forthcoming or rigorous as expected. Issues had to be escalated to be resolved. With tighter deadlines for completion of the audit of the 2017/18 accounts, these issues would need to be addressed.

Adjustments to the accounts were listed at the back of the report. One significant change was the adjustment in the recorded net expenditure.

The external auditors were satisfied that the council had proper arrangements to secure value for money in its use of resources and no issues had been identified in that area.

In the opinion of the external auditor the council needed to be more challenging of its own accounts and provide more of an overview to users of the accounts.

The chairman noted that the audit findings report acknowledged the 'fantastic achievement' in incorporating planned savings of around £10m while still remaining financial sustainable for the foreseeable future.

The committee expressed their concern at the issues highlighted in the report and questioned whether the council would be able to meet the tighter deadlines for audit of the 2017/18 accounts. The committee queried whether the council had adequate procedures in place and sufficient staffing capacity.

Under questioning from the committee it was stated that:

- an unqualified accounting opinion was expected to be issued within the following two weeks
- in making the value for money conclusion the external auditors had considered whether the volume of errors and queries warranted issuing a qualified opinion but as these issues were able to be corrected they decided not to do so on this occasion
- after discussion between officers and the auditors it had been agreed to use the valuation of the smallholdings based on their position at year end 16/17 when the disposal had not yet begun, the notes to the accounts set out the sale position of those assets

- the valuation of assets recorded in the accounts did not impact the return achieved at disposal
- the valuation of land assets at the enterprise zone was produced by external valuers, the chief finance officer undertook to examine the assumptions made in the valuation process and report back on this
- terms of reference had been agreed for the internal control improvement board which had been established. The board would ensure actions already in progress as part of the annual governance statement action plan approved by the committee in May were sufficient to address concerns raised by the external auditor regarding the robustness and employee awareness of council policies and procedures.

The chief finance officer (S151 officer) accepted the comments from the external audit about the close down process and recognised the need to make significant changes for the following year. He confirmed that the council would be working with the external auditor in planning the account close down for 2017/18 and that he would be happy to report back to the committee on progress.

The chief finance officer also confirmed that he had received written questions from a member of the committee and would make a response in due course, liaising with the external auditor as necessary.

It was agreed that the chief finance officer would bring a report to a future meeting of the committee to cover:

- the final audited accounts for 2016/17;
- a clear statement of management actions to address the weaknesses identified, progress on those actions and planning for 2017/18 close down;
- the approach to the valuation of assets and cycle of revaluation.

A councillor who was not a member of the committee asked to speak. The chairman chose not to use his discretion to allow participation by non-members and declined the request.

## **RESOLVED**

**That:**

- (a) the report of the external auditor attached at appendix A be considered;**
- and**
- (b) the report requested by the committee on the issues identified for further consideration be added to the committee's future workplan.**

## **230. SIGNING OF 2016/17 STATEMENT OF ACCOUNTS**

It was noted that due to the outstanding issues of the Hoople pension liabilities and the valuation of the energy from waste plant the accounts could not be signed off at the meeting. As the deadline for signing off the accounts was imminent, members of the committee proposed that delegated authority be granted to the chief finance officer to sign off the accounts once these issues were resolved to the satisfaction of the external auditor.

Members of the committee expressed concern that Worcestershire County Council had not yet supplied the valuation of the energy from waste plant and that this could not be allowed to happen in future years. The committee queried whether Worcestershire County Council was in breach of the partnership arrangements.

The committee requested that information on the final accounts be given to the members of the committee before they were signed off by the chief finance officer.

On the vote it being 6 in favour, 1 against, 0 abstentions it was

**RESOLVED**

that

- (a) the committee delegates to the chief finance officer the approval of the statement of accounts to encompass the remaining asset valuation of the energy from waste plant and Hoople pension liabilities, following consultation with the members of the committee; and**
- (b) the letter of representation (at appendix b) be signed by the chairman of the committee and the chief finance officer.**

**231. UPDATE ON DEBT COLLECTION**

The chief finance officer introduced the report. The report outlined the delegations in place with regard to the writing off of debts. Some of those delegations were with Hoople staff in line with the council's relationship with Hoople. The chief finance officer did not recommend any changes in the arrangements.

**RESOLVED**

that

- (a) the committee was satisfied that the delegations to Hoople Ltd regarding write off of uncollectable debt, as specified at paragraph 4.7.31 of the financial procedures rules remained appropriate.**

**232. ACCOUNTING POLICY UPDATE**

The chairman reminded the committee that changes to the accounting policy had been discussed at the meeting of 4 July 2017. The committee had raised concerns on the proposed approach to the presentation of the Local Government Pension Scheme (LGPS) liability of Hoople Ltd. Subsequent to that meeting the council had sought further external advice on this matter and the chief finance officer was now not proposing any change to the policy.

The external auditor clarified that they had not provided advice on this matter.

**RESOLVED**

that

- (a) the accounting policy in relation to pension deficit valuation for Herefordshire Council and Hoople Ltd, is not changed.**

### **233. APPOINTMENT OF COUNCIL'S EXTERNAL AUDITORS**

The representatives of the council's current external auditor, Grant Thornton (UK) Ltd, left the room during consideration of this item.

The form of appointment of external auditors from 2018/19 had been agreed at a previous meeting as being via the Public Sector Audit Appointments Limited procurement process. Following completion of the procurement process it was proposed to appoint Grant Thornton (UK) LLP as the external auditor to the council.

The committee supported the proposed appointment and noted their appreciation for the support given by the current engagement lead.

Councillor Harvey proposed that the committee exercise its ability to request a private meeting with Grant Thornton for discussion of any issues and to ensure an effective handover. This was seconded by Councillor Chappell.

#### **RESOLVED**

**that**

- (a) it be recommended to full council that Grant Thornton be appointed as external auditor for a period of 5 years from April 2018 at fees determined by PSAA.**

### **234. PROGRESS REPORT ON 2017/18 INTERNAL AUDIT PLAN**

The assistant director of South West Audit Partnership (SWAP) presented the report. She highlighted that progress against the internal audit plan had not been as expected due to additional exceptional reviews that had been requested. Two special reviewed had been completed and identified a number of issues. The outcome of the review into the refurbishment of Blueschool House was dealt with separately on the agenda.

#### **RESOLVED**

**that**

- (a) performance against the approved plan was reviewed with no areas for improvement identified; and**
- (b) the robustness of the management response to recommendations was reviewed and no recommendations for strengthening the response were identified.**

### **235. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2016/17**

The assistant director, SWAP, introduced the report which gave an overall opinion reached in light of work undertaken in 2016/17. She highlighted that 58 reviews had been completed during the period, of which 38 had an assurance opinion.

One corporate risk had been identified in relation to the security of personal and sensitive data managed by a pre-paid card provider for the council. It was reported that the service had taken action to ensure that relevant data security had been put in place.

Although the number of partial assurance reviews had increased this was reflective of the way the council ensured internal audit focus on higher risk areas, particularly adults and children's directorates where risk was inherently higher. The assistant director stated that she was encouraged by management response and readiness to accept recommendations and address the matters raised in audit reports.

Reviews set as partial, or no assurance or with priority 4 or 5 recommendations will be subject to follow up review in the following financial year. The assistant director stated that the council had introduced a monitoring system for recommendations and that the committee would receive 6 monthly updates on progress.

Following a suggestion from a member of the committee the chief finance officer agreed that consideration be given when planning work for next year to a more in depth look at the ECC directorate.

A member of the committee queried whether the committee could view the detailed audit reports. It was confirmed that significant findings were reported to the committee and that detailed reports could be made available but would have to be redacted as necessary on a case by case basis.

## **RESOLVED**

**that**

- (a) having regard to the assurance provided by the annual report the committee did not determine any potential items for inclusion in its future work programme.**

## **236. ANNUAL REPORT ON CODE OF CONDUCT COMPLAINTS**

The monitoring officer introduced the report. The majority of complaints received during the municipal year 2016/17 were related to lack of respect and concerns on declarations of interest where parishes were preparing Neighbourhood Development Plans (NDPs). The monitoring officer noted the retirement of one of the independent persons and thanked him for his time.

In response to a query from a member of the committee it was confirmed that as the council had only one independent person at the present time, it would not be possible for that person to give support to a member who was the subject of a complaint. Giving such support could prejudice that independent person and prevent them from chairing the standards panel if it was needed.

The monitoring officer sought the views of the committee on the process for referring matters to the police where the monitoring officer deemed it necessary. Members of the committee felt that the standards policy should make clear that any issue could be referred on to the police if it was felt that illegal activity had taken place. However it should be done in such a way as to not discourage individuals from participating in local democracy for fear of being reported.

The monitoring officer reported that training was being given to parish clerks and that adoption of the new code of conduct by the council had given the opportunity to refresh the training. The council's training package for councillors and induction package for new councillors was being refreshed and would include training on the code of conduct. This would be discussed with the member development group.

## **RESOLVED**

that

- (a) the annual report on code of conduct complaints was reviewed and no areas for further work were identified for inclusion in the work programme; and**
- (b) the monitoring officer be authorised to agree a protocol for handling disclosable pecuniary interest (DPI) complaints with West Mercia Police.**

The meeting adjourned 15:40 and resumed at 15:53.

### **237. WORK PROGRAMME UPDATE**

The committee's work programme for 2017/18 was reviewed.

The following changes were proposed:

- the report on the potential data breach previously scheduled for this meeting be brought to the November meeting;
- a report be provided by the chief finance officer as discussed on the final audited accounts for 2016/17, the approach to the valuation of assets and cycle of revaluation and a clear statement of management actions to address the weaknesses identified, progress on those actions and planning for 2017/18 close down.

## **RESOLVED**

**That subject to the amendments noted, the updated work programme be agreed.**

### **238. INTERNAL AUDIT REPORT RE PROJECT MANAGEMENT OF THE JOINT CUSTOMER SERVICES HUB (BLUESCHOOL HOUSE) CAPITAL PROJECT.**

The chief finance officer introduced the report. The internal audit report had confirmed that officers had not followed set procedures and that consequently the council could not be certain that value for money had been achieved in the project to refurbish Blueschool House. The chief finance officer apologised for the failings that had been exposed.

The report made 13 recommendations. The management team had fully accepted the findings of the report and the recommendations made. The chief finance officer ran through each of the recommendations and noted that action planned in response to each action including the development of new policies and procedures, updating existing policies and procedures or reinforce policies and procedures through training.

The committee thanked the internal auditor for their work and noted that the report was clear and easy to follow. The committee expressed concern and disappointment at the conclusions. In summary the committee queried:

- whether the culture of the organisation was a contributory factor;
- where pressure had come from to deliver the project to a particular timescale;
- whether this was a one-off or whether other projects could be relied upon to deliver good value;

- how to restore trust and confidence in officers and the council as a whole;
- what oversight was in place for decisions delegated to officers;
- how and why the accommodation programme board was dissolved without a replacement project board for the Blueschool House project being put in place; and
- whether a peer review process might be beneficial

It was noted that an independently led HR investigation was ongoing and that an internal control improvement board had been established to oversee the implementation of the recommendations in the audit report.

The chief executive made a statement in which he:

- apologised unreservedly for what had taken place
- accepted all the recommendations made by the auditors
- noted the importance of having confidence and trust in officers and emphasised that the council's 1200 employees should not all be cast in the same light following the report which had found a very small number of employees had breached council policy and procedure
- asserted that the majority of projects were delivered on time and on budget
- stated that there had been some pressure on timescales for the project but this was not unusual and not an excuse for failure to follow procedures
- stated that the decision as to whether disciplinary action should be taken against any officers involved would be taken once the HR investigation was completed, and in compliance with the council's HR policies.

The chief finance officer confirmed that where bespoke delegations were made to named officers or posts these were not subject to further delegation. Other delegations which related to operational or proper officer responsibilities attached to senior posts were subject to delegation according to the published schemes of delegation.

The chairman of the committee noted that the audit report was very clear and that the recommendations had been accepted in full by the management board. Following the implementation of the recommendations the internal auditor would carry out a further review and a report would be brought to the audit and governance committee in January 2018 setting out the progress made. The chairman requested that the chief executive attend this meeting to provide further reassurance and feedback. The option for a peer review of the directorate was acknowledged. The audit and governance committee would consider the findings of this report when reviewing the constitution of the council and consider any recommendations on strengthening the contract procedure rules.

In response to a question from a member of the committee the chief finance officer confirmed that he had been made aware of concerns about the Blueschool House project shortly after his arrival at the council in the middle of March 2017. A report had been brought to the committee in May 2017 with a recommendation to commission a full investigation. Action had been taken immediately that the seriousness of the issues had been identified.

In response to a query the chief executive stated that the report had not identified inadequate capacity within the council but had identified that there was a skills requirement to be addressed. The council had made external appointments to leadership roles in the property team and was now also fully staffed in the finance team.

It was proposed that a working group of the audit and governance committee be established to work alongside the internal control improvement board. The membership of the group was agreed as being councillors Newman, Chappell and Harvey and the terms of reference were agreed as:



1. to act as a reference group for the internal control improvement board
2. to gain assurance that actions were appropriate and in proportion to the risk, and were being implemented in a timely fashion.

**RESOLVED**

**that**

- (a) the committee identified further recommendations it wished to make to strengthen capital project management and control specifically:**
  - (i) that the management board consider a peer review of the economy, communities and corporate directorate with a specific focus on the issues raised by the audit report;**
  - (ii) a working group be established with membership and terms of reference as set out in the meeting;**
- (b) a further report be provided in January 2018 on progress re agreed actions; and**
- (c) when the project board has implemented the recommendations SWAP be invited to carry out a further review to report back to the committee.**

The meeting ended at 5.00 pm

**Chairman**



**PUBLIC QUESTIONS TO AUDIT AND GOVERNANCE COMMITTEE**  
**20 September 2017**

Question 1

Mr R Stow, Rowleston

Why is Ledbury Town Council not mentioned at all in the Annual Report of Code of Conduct complaints, when there is a large amount of information about long-running conduct issues at this Council in the public domain, with detailed coverage in local media (for instance in the Ledbury Reporter) and in other online sources?

**Response**

As already set out in the report this committees working groups for standards have previously discussed naming of councillors and parishes/town councils involved in complaints and deemed it appropriate for such details to only be published when a standards panel is convened.

Question 2

Mr R Palgrave, How Caple

The Blueschool House renovation project was part of a SCAPE framework agreement with Kier as lead contractor. The framework is promoted as helping to minimise delivery- and cost-risk and ensuring value for money. In reviewing the overspend on Blueschool, has the Council considered if the framework was appropriate for this project, and whether officers were sufficiently trained in its use? Does the Council have an ongoing SCAPE agreement with Kier?

**Response**

The SCAPE framework is designed to enable the delivery of building projects for public sector bodies. As the report from SWAP identifies a number of mistakes were made in the procurement and management of the project to refurbish Blueschool House. The Council is using the SCAPE framework agreement for the building of the new school at Colwall and is confident that relevant staff are able to use it appropriately. In addition the SCAPE framework has been used to carry out the initial feasibility work for Marlbrook School. However, the SCAPE framework is a single supplier framework so following the recently amended contract procedure rules we would not be able to use the SCAPE framework to award new contracts.

