

**MINUTES of the meeting of Audit and Governance Committee
held at Committee Room 1, Shire Hall, St. Peter's Square,
Hereford, HR1 2HX on Thursday 22 September 2016 at 2.00 pm**

Present: Councillor PD Newman OBE (Chairman)
Councillor FM Norman (Vice Chairman)

Councillors: ACR Chappell, EPJ Harvey, J Stone and EJ Swinglehurst

Officers: Steve Hodges, Josie Rushgrove and Claire Ward

155. APOLOGIES FOR ABSENCE

Apologies were received from Councillors JF Johnson, and RL Mayo

156. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the council's constitution, Cllr EJ Swinglehurst attended the meeting as a substitute member for Cllr JF Johnson.

157. DECLARATION OF INTEREST

There were no declarations of interest.

158. MINUTES

RESOLVED:

That the minutes of the meeting held on 4 July 2016 be confirmed as a correct record and signed by the chairman.

159. TRACKING OF INTERNAL AUDIT RECOMMENDATIONS

The directorate services team leader presented a report to track the progress of internal audit recommendations.

It was explained that one of the functions of the audit and governance committee was to seek assurances that actions were taken on risk related issues identified by auditors and inspectors. The recommendations included in the report provide a process by which such actions can be monitored.

The report was well received by the committee and was seen as a welcome initiative to enable the committee to monitor the progress of recommendations.

There were some concerns raised regarding the target approach rather than task approach taken and some slippage in evidence with the response being that there has been issues regarding the timely collating and further work in this area is required

RESOLVED:

That

- a) an additional column be added to the schedule outlining reasons for delay in implementing recommendations.
- b) subject to the above amendment, the process for monitoring implementation of action plans as set out in the report was approved.
- c) future monitoring reports to be provided bi-annually.

160. WORK PROGRAMME UPDATE

The committee's updated work programme was presented, showing amendments which included annual monitoring officer's report being moved to the work plan for November.

RESOLVED

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

161. WORKING GROUP UPDATE - GOVERNANCE IMPROVEMENT

The monitoring officer outlined the progress of the working groups.

It was confirmed that the committee has three working groups that have been assisting with the work programme and the report provides an update of their work.

Consultation feedback from the parish councils on the revised standards procedure is awaited.

The timetable for the constitution work was noted and it was suggested that there was a need to provide clarity and consistency in all correspondence in particular when reference is made to council and who this is as a decision making body

It was agreed that a link be provided to all members to the performance, risk and opportunity management (PROM) webpage.

RESOLVED:

**That:
the report is noted.**

162. EXTERNAL AUDIT FINDINGS REPORT 2015/16

The head of corporate finance introduced the findings from Grant Thornton. The report was positive and reflected the information that had been reported throughout the year.

Representatives from Grant Thornton gave an overview of their findings from the executive summary. The findings had not identified any significant control weaknesses which required highlighting to the committee.

It was confirmed that a supplement had been issued with reference to the status of the audit opinion.

It was confirmed that an additional risk had been incorporated in relation to the value of the net pension fund liability. This was due to it representing a significant estimate. However, this was not presented as a local risk but reflects a national view that pensions contribute a significant risk within local government.

The audit was in the main complete, however it was confirmed that procedures were still being finalised in a number of areas.

In terms of value for money conclusion it was confirmed that in all significant aspects, the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

It was explained to the committee that it was not possible at the time of the report to issue a certificate in relation to the council's housing benefit subsidy claim. Work in this area is ongoing and is due to be finalised at the end of November 2016.

Officers were thanked for the assistance given at all times throughout the audit.

RESOLVED:

That the report be noted

163. SIGNING OF 2015/16 STATEMENT OF ACCOUNTS

The head of corporate finance presented the report highlighting key points of the report which included:

- the council underspent during 2015/16 by £0.3m.
- the general budget reserves increased to £7.3m, which represented 5% of its 2016/17 net revenue budget.
- specific reserves had been set aside totalling £28.5m, this included £9.4m of school reserves.

In answer to a member's question regarding Hereford Futures it was confirmed that payments had been made in this area but that these payments had now been refunded.

In response to a member's question regarding Hoople it was confirmed that Grant Thornton are auditors for Hoople.

A question was asked in respect of rural grants from central government and whether they were still being held in reserve with the response being that the referred to grants were due in 2016/17 and currently expected to be added to reserves, however, this position may change as the municipal year progresses.

It was confirmed that the salary for the director of public health is a shared position with Shropshire county council.

RESOLVED

That:

- a) the 2015/16 statement of accounts be approved; and**
- b) the letter of representation is signed by the chairman of the committee and the acting S151 officer.**

164. ENERGY FROM WASTE (EFW) LOAN UPDATE

The head of corporate finance presented an update.

The drawdown of funds will continue up to 2017 when loan payments will commence. A technical adviser update was provided where it was confirmed that the latest programme provided for review shows a target completion date of 29 December 2016. This is 9 weeks ahead of the contractual hand over date of 28 February 2017. Current progress

suggests that this is optimistic but it is considered that the likely take over date would be in advance of the contractual take over date.

The committee's attention was asked to note that since the previous update a number of waivers and consents had been requested and approved and these were highlighted in the report.

In response to members' concerns regarding safety issues it was noted that the report does recognise safety issues and that safety issues and incidents were in line with those seen in similar size projects.

It was confirmed to the committee that operational aspects were not included within the committee's remit however it was recognised that matters of risk might fall under the scope of the committee. The head of corporate finance was tasked to confirm this and report back to the committee.

RESOLVED

THAT:

- a) the risks to the council, as lender, are confirmed as being reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice; and**
- b) arrangements for the administration of the loan are reviewed and, having regard to the advice of external advisors, confirmed as satisfactory.**

165. BI-ANNUAL FORECAST

The head of corporate finance presented the report, which provided assurance that budget monitoring and management were appropriate. This was reported twice a year and showed how forecasting informed the accounts.

An overspend in adults and wellbeing of £994k has been predicted and the first of a number of recovery plan meetings has taken place with initial focus on the single handed care project which is anticipated to reduce the overspend in 2016/17 by £150k and maximising of block purchased beds to further reduce the overspend by a further £300k.

Further overspends were forecast in children's wellbeing and the economy, communities and corporate directorates with overspends of £459k and £68k respectively.

It was also noted that budget and reserves include a contingency of £0.7m which if not required would be used to offset any remaining directorate year end overspend.

It was confirmed that it was not unusual to report an overspend at this point in the year and that general reserves were adequate to offset if required.

It was commented that it would be helpful for the committee if future reports included up to date data to enable the committee to offer helpful comments.

RESOLVED:

That the report be noted

166. CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

The head of corporate finance presented the report, which summarised the changes to the arrangements for appointing external auditors following the closure of the audit commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

It was noted from the report that the appointed external auditor would be one of the larger firms in the country with smaller local companies unlikely to meet the eligibility criteria.

RESOLVED:

That the committee supports the Local Government Association (LGA) in setting up a national sector led body.

167. PROGRESS REPORT ON 2015/16 INTERNAL AUDIT PLAN

Members were provided with an update on the progress of internal audit work and to bring to their attention key internal control issues arising from work recently completed.

Members' attention was drawn to the significant findings of the report which were;

Better care fund (BCF)
PCI Data Security Standard Compliance
Deprivation of Liberty Safeguards (DOLS)

These were findings that were identified as being a high priority and therefore should be brought to the committee's attention. With all three findings a partial assurance was given with the definition being that some key areas were not well managed and system requires the introduction or improvement of internal controls to ensure the achievement of objectives.

With regard to the BCF it was confirmed that the object of the audit was to give assurance that the BCF was showing evidence of progress in integrating health and social care within Herefordshire.

There were a number of well controlled areas; however errors were highlighted in the calculation of monthly performance returns which were replicated in quarterly returns.

In terms of PCI data security standard compliance it was confirmed that the object of the audit was to provide assurance that for all service areas where the council takes credit/debit card payments there is compliance to the payment card industries data security standards (PCI-DSS).

It was reported that out of 132 PCI-DSS controls, the council assessed itself as compliant against 91 of these. With a further 25 of these controls not applicable. It was noted that there remained a further 16 instances where it was found that the council was not either compliant or fully compliant.

With regard to the DOLS, it was reported that DOLS was a new service, which had been developed over the last 18 months. There were a number of well controlled areas identified however risks were identified which included the impact on the council's financial resources from possible DOLS claims.

A member commented that although partial compliance was welcomed renewed efforts should be made to achieve a far higher level of compliance than reported.

Members expressed frustration that the relevant service area officers were not in attendance to enable the committee to further explore the audit findings.

It was recommended that the relevant service area officers should be requested to attend for future meetings.

RESOLVED:

That the report be noted.

168. PROGRESS REPORT ON 2016/17 INTERNAL AUDIT PLAN

Members were provided with an update on the progress of internal audit work and to bring to their attention key internal control issues arising from work recently completed.

Members' attention was drawn to the summary of the annual plan which listed the audits as agreed in the annual audit plan 2016/17. The importance of members being aware of the status of audits throughout the year was that this enables them to place reliance on the work of internal audit and its ability to complete the plan as agreed.

It was reported that reasonable progress had been made on the 2016/17 audit with 13 audits in progress and two audits completed. Of the two completed one was a grant certification and the other was the Hereford city centre transport package (HCCTP) - link road scheme. The full report for this was presented to the committee in May 2016.

Members raised a point of clarity on the use of technical language in the reports and the over reliance on acronyms.

A discussion was had around the use of the definition non-opinion used within the report with clarification given that this would be when a service area request a report, a report is delivered however no opinion is included within the report.

Clarification was requested by members on the special review requested by the director of economy, communities and corporate. It was agreed that clarification be obtained from the director of economy, communities and corporate.

RESOLVED:

That the report be noted.

The meeting ended at 5.20 pm

CHAIRMAN