

**Minutes of the meeting of Audit and governance committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Monday 30 July 2018 at 2.00 pm**

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

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

**In attendance:** Councillors Hardwick and Shaw

**Officers:** Annie Brookes, Paul Harris, Andrew Lovegrove and Claire Ward

**297. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor EE Chowns.

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

In accordance with paragraph 4.1.169 of the council's constitution, Councillor FM Norman attended the meeting as a substitute member for Councillor FM Norman.

**299. DECLARATIONS OF INTEREST**

There were no declarations of interests.

**300. MINUTES**

**RESOLVED:**

**That the minutes of the meeting held on 21 March 2018 be confirmed as a correct record and signed by the chairperson.**

**301. QUESTIONS FROM MEMBERS OF THE PUBLIC**

There were no questions from members of the public.

**302. QUESTIONS FROM COUNCILLORS**

There were no questions from councillors.

**303. EXTERNAL AUDIT FINDINGS REPORT - 2017/18 STATEMENT OF ACCOUNTS**

The external auditor, Grant Thornton, presented the report and highlighted the following:

- A revised version of the findings had been published on Friday 27 July 2018.
- The conclusions were positive and the intention was to issue an unqualified audit opinion and unmodified value for money conclusion.
- The outstanding points were small compared to other councils in the country and it had been a relatively straightforward audit.

The biggest issue in relation to the audit was set out on page 10 of the supplemental pack and was related to the valuation of property, plant and equipment. Due to the cyclical approach to valuing assets there was a proportion of assets which would not have been valued recently and the council had needed to demonstrate that there were no material changes. Grant Thornton had made suggestions on how this could be mitigated in future.

Following a query from a member of the committee, it was confirmed that Grant Thornton were satisfied with the treatment of the Hoople pension issue. The issue still remained but now group accounts had been prepared, the liability was visible. Grant Thornton had welcomed the introduction of group accounts and the audit opinion would now include Hoople.

The chief finance officer confirmed that there would be lessons learnt in order to consider the follow up recommendations made by Grant Thornton.

A member of the committee requested information of the changes in valuations between assets valued by the previous valuer and the current valuer and whether the current valuer had taken into account Brexit. The chief finance officer agreed to provide a written response which would also include how long the previous valuer had been in place. It was noted that the majority of the council's investment property was occupied by tenants who were paying rent. Grant Thornton assured the committee that the council's approach was appropriate and in accordance with their professional assurance guidance.

Following a query from a member of the committee, Grant Thornton confirmed that the changes in the valuation and sale of the smallholdings were contained in note 10 of the statement of accounts. It was noted that the sale of freehold properties in connection with the Rotherwas Industrial Estate were exceeding the valuations and that the farms had also exceeded the valuations and it was queried whether the assets were being undervalued. The chief finance officer explained that the agents instructed to sell the assets were using a guide price and the difference was what the market was willing to pay for the properties.

Grant Thornton confirmed that in connection with the recording of the capital programme, they had received assurances that recommendations were being followed up. The value for money conclusion formed a view on the adequacy of the arrangements and they are fit for purpose but there were areas which needed improvement.

It was noted that it would be helpful if audit firms would give evidence over the sustainability of councils and the examples of Northampton, Somerset and Bristol were used. Grant Thornton informed the committee that CIPRA were planning on introducing a financial resilience index which will highlight this.

Following a query from a member of the committee, it was confirmed that there had been no transactions with the LEP during the last financial year.

The committee thanked Grant Thornton for their work on the audit.

## **RESOLVED**

**That the report of the external auditor be noted.**

### 304. ANNUAL GOVERNANCE STATEMENT

The chairman used his discretion to move the annual governance statement to the second substantive item to be discussed.

The head of corporate governance presented the report and highlighted:

- Committee had approved the draft statement at its March meeting and considered that it properly reflected the risk environment as it stood at that point in time.
- The statement had been updated and the majority of the changes reflected factual statements, e.g. internal audit's reasonable assurance.
- Deprivation of Liberties (DoLS) had been updated due to planned legislative changes but there were currently no timescales for implementation.
- Cabinet had now considered the report of the LGA corporate peer challenge and agreed how to take forward the findings; this was reflected in the statement.
- The development regeneration partnership (DRP) contracts had been completed and this section had been updated.
- The consultation section included the views of the independent person (from paragraph 16 of the report on page 173 of the agenda pack) and the responses to those views. It was reported that the independent person remained of the view that the three areas highlighted represent a significant governance weakness.

With regard to the lack of a joint protocol with West Mercia Police, it was confirmed that both parties needed to agree a protocol which could not be imposed by one party. However, assurance was given that if there was a suggestion or potential for the reported breach to the code of conduct to be a criminal act, this would be reported to the police and the absence of a written protocol would have no impact on this action. Discussions with the police over a joint protocol would continue.

It was confirmed that three interviews for further independent persons would be taking place over the next week.

With regard to the failure of a group leader to take action in connection with a breach of the code of conduct, it was confirmed that this would form part of the annual report on code of conduct which was due to be presented to the committee at its September meeting. The monitoring officer indicated that the maximum amount of time in reporting to the committee about a failure of a member complying with a resolution or the group leader taking action was 18 months.

The monitoring officer stated that the Localism Act 2011 does not require the independent person to be involved at the initial assessment stage. The monitoring officer confirmed that the views of the independent person were confidential. It was further noted that the council's standards complaints procedure contained more than what was required by law.

The revised constitution had introduced sampling by the Standards Panel. It was agreed that sampling by the Standards Panel would take place prior to the report on the annual report on the code of conduct. It was also agreed that for future years, the annual report would be presented to the July meeting and that a Standards Panel meeting would take place in May.

A vote was undertaken in relation to approving the annual governance statement.

In favour of approving: 5

Abstentions: 2

**RESOLVED**

**That the annual statement governance 2017/18 be approved.**

**305. SIGNING OF THE 2017/18 STATEMENT OF ACCOUNTS**

The chief finance officer presented the report.

It was noted that in the interests of transparency, details of the sale of the freehold properties would be provided on the council's website as previously advised.

**RESOLVED**

**That (a) the 2017/18 statement of accounts be approved; and  
(b) the letter of representation is signed by the chairperson of the committee and chief finance officer.**

**306. 2016/17 EXTERNAL AUDIT FEE**

The chief finance officer presented the report.

It was noted that the additional work was primarily in relation to resolving property, plant and equipment issues.

**RESOLVED**

**That the additional fee of £15,500 to Grant Thornton for additional work carried out to complete the 2016/17 statement of accounts external audit be approved.**

**307. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2017/18**

South West Audit Partnership (SWAP) presented the report and highlighted that it was a strategic overview and that the majority of the items had previously been reported to the committee throughout the 2017/18 financial year. The report represented the annual opinion of SWAP and the reasoning was contained on pages 209 to 210 of the agenda pack.

SWAP reported that the re-audit of the Blueschool House recommendations would be reported back to the committee at its September 2018 meeting. Since the publication of the report, three audits had been completed (public health contracts, GDPR readiness and estates) which would be reported to the committee at its September meeting.

It was noted that SWAP would be running free member training on 23 October in Powys and 25 October in Gloucester.

It was confirmed that the audit plan is informed from the views of key officers, SWAP and management board. It was further confirmed that where an audit is advisory and an action plan is still produced.

**RESOLVED**

**That the annual report be noted.**

The meeting adjourned at 1518 hrs and recommenced at 1527 hrs.

Prior to discussion of the next item, it was noted that the letter of representation which had been approved by signature earlier in the meeting contained a technical imperfection. It was agreed that the following wording at paragraph x would be amended:

Current wording – “*We have considered the unadjusted misstatements ...*”

New wording: “*We have considered the adjusted misstatements and disclosures ...*”

### **308. CORPORATE RISK REGISTER**

The performance service manager presented the corporate risk register as at 31 March 2018 and highlighted that a new risk had been added to the register.

The directorate risk registers had been included as part of the report so that the committee could assure themselves that risks were being considered consistently across the organisation. It was noted:

- All risks should be assessed in line with the performance risk opportunity management (PROM) criteria
- It appeared that the RAG ratings were inconsistent across all the registers, e.g. a score 16 would appear as red in one register but amber in another. Members requested assurance that the RAG rating was being consistently applied.
- That the committee received a simplified version of the risk register and requested an explanation for this.
- The risk owner was not always the same across the corporate risk register and the directorate risk register. The risk owner should be the same across both registers.
- The direction of travel indicators were not consistent across the register and on one register did not appear.

The committee requested sight of the directorate risk registers again in order to assure themselves that risks were being consistently rated and in line with the PROM framework. The committee also requested confirmation that the senior management team view the directorate risk registers so that they had an across the board view of risk. It was agreed that the committee would continue to receive quarterly updates on the corporate risk register.

### **RESOLVED**

**That the report be noted.**

### **309. TRACKING OF INTERNAL AUDIT RECOMMENDATIONS**

The performance service manager presented the report and highlighted the following:

- Appendix 1 provided an update on the 4 outstanding priority 3 to 5 internal audit recommendations for the period ended 30 September 2017.
- Appendix 2 provided an update on the 12 outstanding priority 3 to 5 internal audit recommendations for the period 1 October 2017 to 31 March 2018.

The committee expressed concern that there were still internal audit recommendations outstanding from September 2017. A member of the committee requested consideration be given to a way of indicating whether or not there had been any action to progress the recommendations.

It was noted that the direct payment personal budgets (children's) outstanding recommendation required a revised target date.

**RESOLVED**

**That the report be noted.**

**310. NMITE ASSURANCE REVIEW**

It was noted that the council were being reimbursed for the engagement costs which included officer time.

A member of the committee expressed surprise at having to find out from the newspaper about the principal leaving his post. It was noted that the level of communication from the university appeared not to be very good which could hamper progress and erode confidence.

It was noted that the committee needed to assure itself that the council in its role as accountable body for the DfE funding, were satisfied that the university were complying with the set range of criteria. The committee requested a breakdown of the public funding that the council is accountable for in respect of its role as accountable body. It was confirmed that there would be transparency between the council's role as accountable body and any negotiations with the university re any sales or leasing of land or property to the university.

The committee noted that the whole picture needed to be taken into account and the chief finance officer confirmed that the chief executive is talking to the university about reputational management.

The head of corporate governance confirmed that the cabinet member for economy and communication represented the council at a member level on the joint university delivery board. There were also a number of university sub committees which also had council representation. More broadly consideration of the impact of the university on development of the city was being taken forward through the Hereford Area Plan process led by the cabinet member for infrastructure.

A member of the committee queried whether an overview of the NMiTE project, e.g. how it is being project managed, could be provided which would give assurance that the work was joined up. It was suggested that, as an item of interest to all members, the cabinet member economy and communication, with support from relevant officers, be asked to arrange an all member briefing.

It was noted that the wider elements in connection with the university would sit within the functions of the General Scrutiny Committee. The committee could consider that there was sufficient risk within the university project to refer the issue to the General Scrutiny Committee and request that the project be scrutinised. It was agreed that when the risk registers were presented to the committee in September, the committee would check to see where the university sat on the registers.

**RESOLVED**

**That the report be noted.**

**311. WORK PROGRAMME UPDATE**

The committee's updated work programme was presented, and it was noted that the following reports had been moved to the September meeting due to resource issues:

- Contract procedure rules and finance procedure rules
- Energy for waste loan update
- Hoople governance.

It was agreed that the annual report on the code of conduct be moved to the November meeting in order to allow for a Standards Panel to be convened and their views included in the report. It was further agreed that the report would cover 2017/18 and details relating to the period 1 April to 30 September 2018.

**RESOLVED**

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

The meeting ended at 16:43

**Chairperson**