

**MINUTES of the meeting of Audit and Corporate Governance Committee held at Brockington, 35 Hafod Road, Hereford. HR1 1SH on Friday, 29 February 2008 at 2.30 p.m.**

**Present:** Councillor ACR Chappell (Chairman)  
Councillor B Hunt (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, R Mills, RH Smith and AM Toon

**In attendance:** Councillors PJ Edwards, TM James and JG Jarvis

**66. COUNCILLOR B. HUNT**

The Chairman welcomed Councillor B. Hunt, the newly appointed Vice-Chair, to the meeting.

**67. APOLOGIES FOR ABSENCE**

There were no apologies for absence received.

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

None.

**69. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**70. MINUTES**

**RESOLVED:** that the minutes of the meeting held on 25<sup>th</sup> January 2008, be approved as a correct record and signed by the Chairman.

**71. USE OF RESOURCES REPORT 2008**

*[Note: The Committee agreed to consider this Agenda Item (5), and Agenda Item 6 (Annual Audit and Inspection Letter 2008) together, in view of the strong link between subject matters.]*

The Chairman welcomed Ms Liz Cave and Mr Terry Tobin, both External Auditors from the Audit Commission, to the meeting. They presented the Audit Commission's report on the Council's use of resources during 2006/07. The report was a routine assessment of how the Council had managed and used its resources over a twelve-month period, and it had focussed on the importance of strategic financial management, sound governance, and effective financial reporting arrangements. In addition to assessment, the report had also provided a comprehensive list of improvement opportunities, detailing who would be responsible for each improvement, and by when.

Mr Tobin drew the Committee's attention to the following in particular:

- The Audit Commission had assessed the Council's use of resources in terms of financial reporting, financial management, financial standing, internal control and value for money.
- He said that the drop in overall rating from Level Three to Level Two was largely due to the findings of the Crookall report, which had impacted on the assessment of internal control and value for money. The other three areas of assessment had retained their ratings from the previous year, and he said that good progress had been made.
- Overall, the audit process had been quicker and easier, and he had noted a marked improvement in the availability of information. The Council had produced a good summary of its accounts, and now had a robust medium term financial plan with strong links to other areas. Debt collection had also improved, and there was a much clearer picture of the Council's resources.
- He noted that the influence of the Council's internal audit section, and of the Audit and Corporate Governance Committee, was increasing, and he described this as positive. Areas requiring improvement were: the review of revenue and capital, option appraisal (costs and benefits) in ICT and Herefordshire Connects, procurement, and assessment of value for money. He added that the Council's action plan in respect of the use of resources was full and thorough, and would greatly assist in making improvements.

During the ensuing discussion, the following principal points were made:

- Councillor Toon highlighted what she felt were insufficient controls over disposals and acquisitions of Council property. She said that there was a need for improvements in fixed asset management, particularly in relation to schools which was a major area because of the sheer number of buildings involved. The Audit Services Manager said that he would review the asset register in respect of the issues mentioned.
- Councillor Toon felt that there might still be some areas where Prince2 methodology was not being applied to procurement projects as a measure to improve internal control, as suggested in the Use of Resources report. She acknowledged that this requirement would form part of the Constitution, and stressed that all projects should be carefully monitored to ensure compliance, and to ensure that disciplinary action was taken in relation to any breaches.
- In response to a question, the Director of Resources advised that the opportunities for improvement appended to the report were ultimately the Chief Executive's responsibility, and she suggested that one way of monitoring progress with them would be to track them via quarterly audit reports.

**RESOLVED: that it be recommended to Cabinet that:**

- (i) **Subject to the Committee's observations above, the report of the Audit Commission in respect of the Use of Resources be noted, and the opportunities for improvement identified therein, and the Corporate Management Board's progress report and action plan be approved; and**

- (ii) **The Council's asset register and policies relating to it be reviewed, particularly in respect of the acquisition and disposal of school property, and the Audit Services Manager will report his findings to a future meeting of the Audit and Corporate Governance Committee.**

**72. ANNUAL AUDIT AND INSPECTION LETTER 2008**

*[Note: The Committee agreed to consider this Agenda Item (6), and Agenda Item 5 (Use of Resources Report 2008) together, in view of the strong link between subject matters.]*

Ms Liz Cave and Mr Terry Tobin presented the Audit Commission's Annual Audit and Inspection Letter which had examined the Council's overall current performance and had allocated an overall Star Rating of 2, indicating that it was "improving adequately". This assessment had taken the form of a report, and had focussed on the Council's culture, finances, value for money, grant claims, and various initiatives such as the proposed joint working with the Primary Care Trust, and the Herefordshire Connects Programme. In addition, the report had also examined the independent investigation of financial and contractual arrangements in the Council's Information and Communications Technology (ICT) Department, conducted by Mr Ian Crookall, and what actions the Council was taking to address the issues in the report (hereafter referred to as "the Crookall Report").

Ms Cave and Mr Tobin highlighted the following points in particular:

- **The Council's Overall Performance:** Significant factors contributing to the Council's drop in overall Star Rating from Three to Two included the issues addressed in the Crookall Report, and a housing score of One. Ms Cave explained that the housing score was anomalous, because in reality there had been a significant reduction in the number of families in temporary accommodation for long periods, but the impact of this had been to worsen some of the performance indicators in the short term, which had had a detrimental effect on the Star Rating. She added that the Council was improving overall, although not as quickly as some local authorities in a similar position. There were still some concerns in respect of improvements in children's and adults' services, which were being addressed. There had been significant improvements in the Council's performance indicators, well above average compared to other authorities, and some excellent and detailed plans were now being produced. Although Ms Cave acknowledged the improvements, she warned against producing numerous individual performance plans, because she said that this would make issues too complicated. Overall, the Council needed to be clearer on where its strengths and weaknesses lay.
- **The Crookall Report:** The Audit Commission was satisfied that Mr Crookall's report and the preceding external investigation had been thorough, independent and open. Because of this, and because it was clear that the Council had taken the report seriously, there was no requirement for the Audit Commission to conduct a separate investigation. Ms Cave said that the emphasis must now be on implementing the Crookall Report's recommendations as promptly as possible, and on the Council's forward direction. She would therefore assess progress from the present day onwards. She would look in particular at the Council's procurement strategy.

- **The Development of the Herefordshire Public Service Trust:** Ms Cave reported that, during August and September 2007, the Audit Commission had assessed joint working between the Council and the Primary Care Trust, in the lead-up to the creation of a Public Service Trust (PST), and had recently produced a report. The Chief Executive said that he had written a response, and members requested that they receive a both the report and the response, for information in time for the Committee's next meeting.

During the ensuing discussion, the following key points were made:

- Councillor RH Smith emphasised the importance of ensuring that the quality of the Council's written documentation was of the highest standard, so that it was timely, clear, correct, and with the appropriate amount of detail. He added that the Resources Directorate had made recent improvements in this, and in particular, that the quality of financial information was improving. Councillor ACR Chappell said that more information was needed on reports, so that the public had greater access. Councillor Toon cited an example of a recent Cabinet report about a property matter, which she felt contained insufficient information for members to be able to make an informed decision. The Director of Resources reported that she was aware of the particular issue, which she felt had been an exception to the normal standard, and she said that she had taken steps to secure improvements in quality.
- Councillor Chappell asked for the Internal Audit and Inspection Letter to be corrected at Paragraph 91 (Page 73 of the agenda), so that the word "Two" in the penultimate sentence read: "One". Ms Cave said that future copies of the document would be corrected.
- In response to a question from Councillor AM Toon, Mr Tobin said that some of the "softer" elements of the action plan (as opposed to those items which could be monitored through devising systems and indicators) would be implemented through training (for example, training in ethical governance). He said that he would monitor other aspects - such as the Council's culture - through online surveys, and through the annual corporate assessment.
- Councillor Toon felt that the Council needed to improve its strategy for following up resolutions made at its various meetings, so that every decision was implemented without delay. She suggested that a single monitoring system should be applied to the Council's entire decision-making process, to ensure consistency. The Chief Executive said that following up resolutions was an intrinsic part of creating a culture of compliance within the Council, and that there needed to be clear consequences for non-compliance. He said that the Council must be known for doing everything that it had agreed to do. Councillor Smith added that the Council must also listen and respond to individual requests from Councillors. Members acknowledged that the process would take time, and would be achieved through management development and training.
- Councillor Chappell reported that, as a step towards integration with the Primary Care Trust (PCT), he had invited the Chair of the PCT's Audit Committee to future meetings of this Committee, and conversely, he would attend the PCT's Audit Committee.
- Councillor Toon was of the opinion that the strategic development of the Public Service Trust (PST) was achievable by focusing first on the joint delivery of services, and then working backwards to decide how to achieve it,

by reviewing the structure, manpower and governance of both organisations. She felt that it was important for staff to understand in the early stages of development what their accountabilities were, and for the public to be kept informed. The Head of Legal and Democratic Services reported that the development of the PST would be furthered in part by the formation of "strategic partnerships". He informed members that, if the Council were the lead authority in any of these partnerships, it would be legally accountable and would be responsible for dealing with any complaints.

- The Director of Resources said that the Director of Corporate and Customer Services was preparing the Council's business continuity plan, and it would be completed by 31<sup>st</sup> March 2008. It would be part of all of the Council's service plans and relevant management areas for the period 2008-2011. In response to a question, the Chief Executive confirmed that he would assess whether the business continuity plan required any decisions at member level, or purely at management level. He agreed that the Committee would view it regardless, and Councillor Smith felt that it would be a useful tool to help make recommendations to Council on the level of expertise required for procurement and contractual management.
- The Cabinet Member for Environment and Strategic Housing, Councillor JG Jarvis, was present at the meeting, and apprised the Committee of progress made with the Council's Waste Management Private Finance Initiative contract. Councillor Jarvis said that the Council was close to concluding negotiations to vary the contract, and that a revised waste collection policy would be published in the near future. There were several options to consider in relation to waste disposal, and the views of all Councillors would be sought on this. Ms Cave said that the Audit Commission was aware of the complexity of the issues involved, and of the measures in place to keep costs to a minimum.
- The Director of Resources said that she would report to Cabinet on 27<sup>th</sup> March 2008, on how all the necessary improvement measures highlighted by the Crockall report and the Audit Commission would be implemented and driven. The Committee considered that it was vital to keep track of the numerous actions arising from the reports, and of those suggested by the Audit and Corporate Governance Committee, and agreed unanimously that an effective "bring-forward" system would be devised and considered at the Committee's meeting to be held on 20<sup>th</sup> June 2008.

Ms Cave and Mr Tobin thanked the Committee for its comments, and said that the Audit Commission would require a progress report from the Council in six months' time, in respect of its Annual Audit and Inspection Letter.

**RESOLVED: that it be recommended to Cabinet that:**

- (i) **subject to the points made above, the Audit Commission's Annual Audit and Inspection Letter for 2008 be noted, and the action plan and the Chief Executive's response be approved;**
- (ii) **the Audit Commission's report in respect of the developing Public Service Trust, and the Chief Executive's response, be forwarded to the Committee for information in time for its next meeting;**

- (iii) **the Council's business continuity plan be considered at the next Committee meeting following its completion; and**
- (iv) **a "bring forward" system for actions required by the Audit Commission and the Audit and Corporate Governance Committee, be considered at the Committee's meeting to be held on 20<sup>th</sup> June 2008.**

**73.    FINANCIAL AND CONTRACTUAL PROCEDURAL RULES**

The Head of Legal and Democratic Services presented a joint report from himself and the Director of Resources, on proposed revisions to Appendices 3, 4 and 5 to the Council's Constitution. The Appendices related to the Council's procedure rules for its budget and policy framework, finances, and contracts. The review had been extensive, and had incorporated the best elements of the constitutions from the four upper tier local authorities which had achieved the very best use of resources assessments in 2007.

The review of the Constitution was a direct response to the discovery of irregularities in financial governance in the Information and Communications Technology Department, and to subsequent reports by the Director of Resources on the issues involved, and an independent review by the former Chief Executive of Buckinghamshire County Council, Mr Ian Crookall.

The revised elements of the Constitution clearly depicted where responsibilities lay, and what the distinctions were between members and officers' roles. In addition to this Committee, the revisions had been considered by the Standards Committee, the Constitutional Review Working Group, Cabinet, and the Strategic Monitoring Committee. Over the course of the review, it had become apparent that a complete review of the remainder of the Constitution, and of the Scheme of Delegation to Officers, was necessary to ensure that they reflected the changes to Appendices 3, 4 and 5, and it was anticipated that this would be completed in time for the Council meeting in May 2008.

The Head of Legal and Democratic Services reported that training on the application of the revised procedures would be arranged for officers.

Councillors RH Smith and ACR Chappell expressed concern that the revisions had been considered by numerous other committees and working groups, and they felt that this had made the procedure overly-complicated and difficult to track. He suggested that the procedure for making changes to the Constitution should be reviewed and simplified. The Head of Legal and Democratic Services said that this would be revisited as part of the review of the Constitution as a whole.

Members also expressed concern over:

- The need for further clarity of the respective responsibilities of Directors and Cabinet Members, which would be defined in the proposed review of the Scheme of Delegation.
- The wider issue of the change to the deadline for deposit of formal questions to Council by Councillors. It was felt that this might not allow Members enough time to submit questions, particularly where reports were being submitted late and sent out "to follow". The Committee was assured that the issue of late reports was being addressed.

- Councillor AM Toon reminded the Committee that she had requested a review of Appendix 7 of the Constitution, via Council. The Chief Executive said that he would look into this and deal with it separately.

In conclusion, Members did not wish to hold up approval of the revised appendices at this stage, and therefore approved the recommendations on the understanding that the points made above would be dealt with as part of the recommended review of the Constitution.

**RESOLVED: that it be recommended to Council that**

- (i) **the revised Appendices 3, 4 and 5 of the Constitution (Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract Procedure Rules) be approved, subject to the comments made above;**
- (ii) **the Head of Legal and Democratic Services conducts a complete revision of the Constitution and the Scheme of Delegation to Officers for Council's approval in May 2008; and**
- (iii) **the amendment to Paragraph 4.25.1 of the Constitution be endorsed.**

**74.    ANNUAL GOVERNANCE STATEMENT 2007/08 UPDATED REPORT**

The Chief Internal Auditor presented his report in respect of the Annual Governance Statement 2007/08, which had been updated for approval at Cabinet.

Members highlighted some errors in the report which required amendment, and the Chief Internal Auditor said that he would ensure the statement was corrected.

**RESOLVED: that it be recommended to Cabinet that the draft framework for the Annual Governance Statement 2007/08 be approved, subject to the following amendments:**

- **Paragraph 7, Page 84 of the agenda, the date should be changed to 25<sup>th</sup> instead of 26<sup>th</sup> on all future versions of the report;**
- **Appendix 1, Point 3.2 should be revised to read: "Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the Community, are defined and communicated through codes of conduct and protocols; and**
- **Appendix 1, Point 4.3.1 should include the additional wording: "Officers' Code of Conduct".**

**75.    UPDATED INTERIM ASSURANCE REPORT 2007/08 NO.5**

The Chief Internal Auditor informed the Committee of progress made with updating the Interim Assurance Report for 2007/08. He drew particular attention to the progress made with significant internal control issues identified in the previous report, and to any issues that had arisen to date.

Members noted Paragraph 6(c) on Page 109 of the agenda, which summarised the work that the Audit Section had undertaken with members of staff following the unsatisfactory audit opinion in 2006/07 on financial management and procurement systems in ICT. The current audit opinion was satisfactory. The Audit Commission was fully aware of the present position, and was pleased with progress made.

The Chief Internal Auditor highlighted staffing shortages within his department, which coupled with the exceptional additional work generated by the irregularities in the ICT department, had made undertaking the usual audit programme timetable extremely difficult. The Audit Commission had allowed some changes to the timetable as a result, and he envisaged that, as issues were resolved, he would be able to produce a more rigorous programme for the forthcoming year.

In response to a question from Councillor Toon, the Chief Internal Auditor said that not all ICT systems, for example, those in schools, were included within the corporate ICT framework, and that work was being done to resolve these issues.

Members referred to the Special Investigation Audit into the ICT Department, on Page 114 of the agenda, and asked that the results of the investigation be reported to the Committee at its next meeting.

**RESOLVED: that the report be noted, and a report on the Audit Department's Special Investigation into the Information and Communications Technology Department be considered at the Committee's meeting on 4<sup>th</sup> April, 2008, with the public and press being excluded from the meeting under Schedule 12A of the Local Government Act 1972, as appropriate.**

**76.    TRAINING FOR MEMBERS**

The Chief Internal Auditor presented his report on proposed training for Members, which would provide them with the necessary skills to review the Council's financial governance arrangements. Suggested topics included Prince2, Risk Management, and Financial Awareness.

Members agreed that external trainers would be enlisted to deliver training on Prince2.

In addition, Members asked for training on Central Government Funding Streams, both in terms of practical application, and the terminology used.

**RESOLVED: that the proposed members training programme be approved, and the Director of Resources be authorised to liaise with Members' Services on delivery of the programme, subject to the following:**

- **The training in respect of Prince2 be delivered by external trainers; and**
- **An additional training session be arranged in respect of Central Government Funding Streams.**

The meeting ended at 4.51 p.m.

**CHAIRMAN**