

MINUTES of the meeting of Audit and Governance Committee held at Council Chamber, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Thursday 19 March 2015 at 10.00 am

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

Councillors: WLS Bowen, EPJ Harvey, Brig P Jones CBE, NP Nenadich, GA Vaughan-Powell and DB Wilcox

Officers: Peter Robinson, Annie Brookes, Wayne Welsby, Josie Rushgrove, Jacqui Gooding (SWAP), Ian Baker (SWAP), Phil Jones (Grant Thornton) and Terry Tobin (Grant Thornton)

46. APOLOGIES FOR ABSENCE

Apologies were received from Councillors CNH Attwood, MAF Hubbard and PGH Cutter.

47. NAMED SUBSTITUTES

In accordance with paragraph 4.1.23 of the Council's Constitution, Councillor GA Vaughan-Powell attended as substitute Member for Councillor CNH Attwood and Councillor EP Harvey attended as a substitute Member for Councillor MAF Hubbard.

48. DECLARATIONS OF INTEREST

There were no declarations of interest.

49. MINUTES

A member noted that according to the minutes of the meeting on 28 January 2015, the Whistleblowing policy was due to be presented to the Committee today and queried why it was not on the agenda. It was confirmed that an update was provided as part of the agenda item on the committee's future work programme.

RESOLVED:

that the minutes of the meeting held on 28 January 2015 be confirmed as a correct record and signed by the Chairman.

50. EXTERNAL AUDIT UPDATE

The Committee received a report from external auditors, Grant Thornton. The report was available earlier than usual due to preparation for the audit of final accounts and value for money conclusion.

The main issues emerging from the report are:

- Scrutiny in the current operating climate
- Meeting objectives with regard to outside bodies and joint ventures

- Involvement of citizens

In answer to a question from the Chairman on External Audit's view of contract management arrangements, Grant Thornton representatives felt that arrangements are adequate although this needs to be considered in relation to how the council meets its strategic objectives. External Audit is able to share best practice from other local authorities and noted the difference between commissioning and contract management, where there needs to be focus on developing long-term relationships.

The Chief Financial Officer confirmed that the medium term financial plan is satisfactory and that compared with other authorities, Herefordshire is stronger in its partnership arrangements. Grant Thornton acknowledged that the council shows some good examples of oversight.

The chair of the General Overview and Scrutiny Committee commented on the need to be forward thinking and to optimise joint working. The ability to scrutinise within available resources must also be maintained.

Grant Thornton drew attention to the importance of effective partnerships, citing Greater Manchester's new partnership arrangements. There were also lessons to be learned from experiences at Rotherham with possible intervention there from the Secretary of State as a result of significant failings in governance.

Attention was drawn to the Audit Commission's being abolished in April 2015 which will have implications on the future recommissioning of the council's external auditor contract beyond 2017-18. The committee was advised to consider delaying until after the elections any decision on extending the engagement of Grant Thornton beyond the current five year contract.

It was noted that in the context of events in Rotherham and Greater Manchester referred to in the report, and the matter of self-sufficiency, Herefordshire must not become complacent and due diligence is required.

The Chief Financial Officer explained that the formula grant of £26m would disappear under self-sufficiency. Demographics and health pressures in Herefordshire would also have an impact on the extent of self-sufficiency.

RESOLVED:

that the External Audit Update be noted.

51. EXTERNAL AUDIT PLAN 2014-15

External Auditors Grant Thornton introduced the Plan which highlights the council's significant challenges and the response from the auditors. The Plan precedes the audit of the final accounts.

The significant risks of material misstatement are identified in the report as:

- Fraud revenue, which is not significant for Herefordshire
- Upgrade of ledger and data transfer, where Audit's involvement is to ensure smooth transfer
- Creditor payments, payroll and benefits
- Value for money conclusion in terms of financial resilience and the medium term financial plan

It was confirmed that some risks are generic and are not unique to Herefordshire and that no material weaknesses have been found for Herefordshire.

In answer to a member's question regarding the extent of the council's say in determining the areas for audit in the context of potentially costly contracts disputes, Grant Thornton confirmed that it is possible to adapt or add to the audit plan. However the plan is designed and costed to allow for focus on major strategic risks. Therefore there has to be a distinction between delivery compliance and working on specific activity outside of the audit plan as well as recognising the differing roles of external and internal audit.

Grant Thornton representatives gave an update on their work on an objection to the incinerator plant. Responses on Grant Thornton's provisional views are awaited from both the council and the objector, which will then be reported to the Audit Commission. It is likely that this matter will not be concluded until May 2015 and in the meantime there is a limit to what can be disclosed about the investigation without the objector's agreement.

RESOLVED:

that the plan be noted.

52. INFORMING THE AUDIT RISK 2014-15

Grant Thornton presented the report which sets out a series of standard questions for governance. The council's responses regarding key controls are satisfactory and these are presented to the committee for oversight.

In response to a question from the Chairman, Grant Thornton confirmed that the responses from the council regarding risks around fraudulent transactions and relationships with providers were satisfactory.

In answer to member's question regarding the robustness of capital borrowing offset against generating finance from sale of assets, Grant Thornton clarified that assumptions would be in the financial plan when it is produced and that assets are valued on a 5-year rolling cycle. Herefordshire is compliant with this rule. It was noted that market fluctuations need to be taken into account in valuations.

A member requested that future reports are in clear language to enable understanding.

The Chairman thanked the representatives from Grant Thornton for their work in producing the reports presented to the Committee today.

RESOLVED:

that the report be noted.

53. INTERNAL AUDIT PLAN UPDATE (SWAP)

The significant findings and risks were presented, highlighting two areas where partial or no assurance was found, these being Procurement and Schools.

With regard to procurement, it was found that guidance for officers was largely satisfactory. However, the contracts register was not up to date and therefore some contracts documentation was not available for audit.

In relation to schools, there were significant findings but no fraud was detected and there are controls in place for the future. Findings were identified across the sample of six schools and a report will be produced which will go to schools. Further work will be carried out with a further six schools as part of a rolling programme, following-up on areas of partial or no assurance and looking at Pupil Premium issues.

There were no significant findings in terms of key controls and all review actions have been accepted by officers.

A question was raised about feedback from schools, particularly where there is no financial control from the council, e.g., with academies. The Chief Financial Officer explained that there is assurance through the systems operated through Hoople and control via the Scheme of Delegation, as well as a statutory duty for academies to work with the Schools Forum, and therefore there is some scope for intervention.

A member requested that school governor training be more thorough, and added that the General Overview and Scrutiny Committee has been asked to look more at schools especially with regard to the Pupil Premium.

In response to a member's observation that some items had been described as removed from the report, it was clarified that this was in order to provide capacity for priority areas and those items would be carried into the next plan.

A member asked how Herefordshire ranked in relation to significant risks when compared with other authorities. It was confirmed that there is consistency with other unitary authorities and further information could be provided on this area.

A further question was raised about timescales for and management of implementing electronic systems given that there has been reference to systems not being up to date. Timescales for implementation were not known. However, it was noted that the difficulties in providing documentation during the audit were found to be historical. Further information was requested on this area.

A member requested that the ICT Plan be included in the future work programme for the Committee.

RESOLVED:

that the report be noted.

54. INTERNAL AUDIT CHARTER 2015-16 (SWAP)

The Internal Audit Charter setting out the work of internal audit for the period 1 April 2015 to 31 March 2016 was presented. The Charter retains the format as that presented to the Committee in June 2014.

RESOLVED:

that the Internal Audit Charter be approved.

55. INTERNAL AUDIT PLAN 2015-16 (SWAP)

The Plan is guided by the Charter approved by the Committee today and contains regular areas of work and special projects as detailed in Appendix B of the report.

The Chairman asked about the rationale for apportioning time to particular activities and the implications of achieving work sooner than planned. It was clarified that the timescales are set out in order to inform resources required and are approximations. It may take longer than planned to complete work and in that case, the work would normally be absorbed unless something significant arose that required re-scoping.

A member asked what was meant in Appendix B of the report by the term "liaison". The auditor explained that this was in relation to ad-hoc discussions about managing the plan and providing advice to the organisation.

In answer to a further question about covering digital processes, data security and robustness of outsourced systems, it was confirmed that there were plans to consider ICT and data security in future audits. The mobile strategy is covered in compliance work but could also be referenced by audit. The developments in use of ICT and changes in the council's operating environment were noted as requiring attention from a governance perspective. The Chief Financial Officer added that it is the role of audit to provide assurance and a separate briefing on ICT would be of benefit. The auditor confirmed that there is a stringent process in place for audit and so if there were any ICT issues, these would be identified.

A member asked for assurance that data is protected as far as possible and that documentation could not be removed from systems by officers or members. The Auditor explained that this was not covered in the audit plan but is addressed in other ways by the council. Some past issues have been identified and as much assurance could be given as possible provided that individuals comply with procedures. Further, it was confirmed by the Governance Manager that information security and confidentiality agreements are signed by staff as a mandatory requirement and would form a mandatory element of member induction following the forthcoming elections.

The Chairman thanked the internal auditors for their work including the training that they had provided for the Committee over the past year.

RESOLVED:

that the report be approved.

56. ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY

The updated policy was presented by the internal auditor. It was noted that this document had been to Committee previously and now incorporates the changes agreed.

The policy is due for biennial review and the changes have now been included to show a zero-tolerance approach.

RESOLVED:

that the policy be approved.

57. CONTRACTS AND FINANCIAL PROCEDURES RULES

The Chief Financial Officer introduced the updated rules which reflect changes to posts and legislation as well as a change to the format.

It was noted that an error had been identified in the draft contract procedure rules (Paragraph 4.6.9.3(b)) relating to the value of the contracts register and the value should be adjusted from £10,000 to £5,000.

A member reiterated an earlier point in relation to tracking contract documentation and timescales for implementing electronic systems for better document control. The Head of Commercial Services confirmed that the new system went live in February and will be followed by phase two in relation to the contracts register in June 2015. The system increases visibility and is more dynamic with triggers for contract managers to act in a timely manner in relation to re-procurement. In terms of value for money, the system is better value than the previous system which was comparatively more expensive and more complex in its processes. The new system is simplified and has more scope.

The Vice Chairman commented on key controls and risk management and how this was approached. The Chief Financial Officer explained that there is a risk management officer role and that mitigation is also considered within risk management.

A request was made to ensure that terminology such as that relating to ICT within documents is generic in order to keep pace with technological advances.

RESOLVED:

that the report be noted.

58. BUDGET MONITORING REPORT

The Chief Financial Officer presented the report and confirmed that the council is on-track to spend within budget.

A member commented on the timescales for producing this report, noting that it was based on December's figures. The Chairman replied that this was the first opportunity to present this report due to the scale of business at the last committee in January. The report was presented to Cabinet in February. It would be possible to produce a summary of information for the public domain for assurance. It was noted that the timing of the report would present a challenge in responding to issues raised if the report had not been positive, and this would be addressed for next year's report.

RESOLVED:

That

- (a) the protected spend by the council within its budget for this financial year be noted;**
- (b) the capital and treasury projected outturns be noted; and**
- (c) the performance to achieve 2014-15 savings plans be noted.**

59. ENERGY FROM WASTE LOAN UPDATE

The Chief Financial Officer introduced the report which provides a briefing on the loan arrangement relating to the waste PFI contract variation in May 2014. The loan is managed through the Audit and Governance Committee with revised terms of reference. Herefordshire and Worcestershire are working together, each having its own committee but the same risk register.

The Vice Chairman asked about the loan balance and how this would be repaid when the contract ends. The head of corporate finance explained that this would be through a bullet mechanism in the cash flow with the 25% ownership being returned at the end of the PFI arrangement. The valuation would not be based on open market values but on a prudent tax valuation, meaning that the expected return would be in excess of the valuation.

RESOLVED:

that the report be noted.

60. FUTURE WORK PROGRAMME

The committee's draft future work programme was presented for discussion and finalisation.

The work programme recognises the Annual Governance Statement and auditors' reports and also needs to plan for regular training updates. It also needs to be more proactive in scope to include urgent matters arising. It was noted that the Forward Plan, which is now presented in a new format, also needs to be observed.

A member asked for the reason for the delay in progressing the Whistleblowing policy. The Governance Manager explained that the delay was to allow for staff consultation and queries from unions.

It was noted that the review of the Anti-fraud, Bribery and Corruption policy could be removed from the work programme for this year as this review has just been concluded.

The work programme must also have scope for the committee to reappraise audit outcomes, building-in separate meetings and working groups where appropriate.

RESOLVED:

That subject to amendments made today, the Committee's work programme for 2015-16 be agreed.

The Chairman thanked all members for their attendance, wishing everyone well for the new administration.

He also thanked officers for their contributions and support to the committee.

The Chair of the General Overview and Scrutiny Committee thanked the Chair and the Vice-Chair for their work on the committee.

The meeting ended at 12.12 pm

CHAIRMAN