

**Minutes of the meeting of Audit and governance committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Tuesday 19 March 2019 at 2.00 pm**

**Present:** Councillor PD Newman OBE (chairperson)  
Councillor ACR Chappell (vice-chairperson)

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

**Officers:** Annie Brookes, Andy Churcher, Donna Etherton, Andrew Lovegrove, Jacqui Gooding and Gail Turner-Radcliffe

**355. APOLOGIES FOR ABSENCE**

There were no apologies for absence.

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

There were no named substitutes.

**357. DECLARATIONS OF INTEREST**

There were no declarations of interests.

**358. MINUTES**

**RESOLVED:**

**That the minutes of the meeting held on 23 January 2019 be confirmed as a correct record and signed by the chairperson.**

**359. QUESTIONS FROM MEMBERS OF THE PUBLIC (Pages 9 - 12)**

Questions received and responses given are attached as appendix 1 to the minutes.

**360. QUESTIONS FROM COUNCILLORS (Pages 13 - 14)**

Questions received and responses given are attached as appendix 2 to the minutes.

**361. PROGRESS REPORT ON 2018/19 INTERNAL AUDIT PLAN**

The chairman used his discretion to move the progress report on the 2018/19 internal audit plan to the first item.

The head of internal audit presented the report and highlighted the following:

- 7 audits had been completed since the last update
- 2 audits were in draft

- 10 audits were in progress
- 6 audits were assessed as reasonable
- There were 3 priority 2 findings across 6 audits

### Hoople

The priority 2 finding had been in connection with the calculation of a key performance indicators (KPIs) as not all KPIs had written methodologies in support of the KPI calculation. The recommendation had been accepted and there was a target completion date of 31 March 2019.

It was confirmed that without reviewing all the KPIs, it was not possible to confirm whether the issue with the Hoople KPIs would found in other KPI either within Hoople or elsewhere in the council.

With regard to the development regeneration partnership (DRP) KPIs, there was no reason to believe that there was an issue with the KPIs but a 100% guarantee could not be given.

### Internal Control Improvement Board (Blueschool House)

The head of internal audit reported that pages 62 to 63 of the agenda pack provided an update on the internal control improvement board follow up review. The report was currently in draft and would be provided to committee members when it was finalised.

It was reported that the infrastructure was now in place to address the recommendations from the Blue School House audit report and provide a solid control framework. Training has been provided on the processes and they now needed to be embedded across the council.

During the discussion of the issue, the following points were raised:

- That the South Wye Transport Package (SWTP) was not currently on the new project management system (Verto). This was disappointing and frustrating for the committee as they were seeking assurance that a major project was following the project management processes now in place.
- The committee had requested assurance at its November meeting and again at its January meeting and it was only at this meeting that it was being reported that the assurance would not be possible because the project was not yet on Verto.
- The agreement to move to the Verto system had only been agreed in October 2018 and there was a phased approach to projects being loaded on the system.
- The SWTP would be subject to an internal audit in Q1 which would include governance compliance.
- Some committee members expressed concern that there may be an unauthorised overspend on a major project. The chief finance officer confirmed that he did not recognise that there was an overspend on the SWTP. A large amount of money had been spent and appropriately

reported in the public domain on this project. There had been a lot of examination of this project in a number of different forums.

- The chief finance officer and head of internal audit were unable to comment further on this project until the review had taken place.
- The SWTP was now moving into the next phase as the public inquiry had reached a conclusion.
- Other projects had been loaded onto the Verto system as they were incurring more spend than SWTP.
- As a result of the outcome of the public inquiry, the SWTP project would now be loaded onto Verto as there would be more spend on the project.
- There had been significant progress made in relation to the recommendations following the Blueschool House review. There were now checks and balances in place which would make it less likely that an incident like Blueschool House would occur again.
- It was confirmed that there had been spend on the SWTP from October to date but it was relatively small in terms of a project with a £35m spend. The SWTP was a long term project and during the next phase there would be a greater amount of spend.
- The committee were concerned that there was an unauthorised overspend on the project given the recent officer decision to move £1m from the existing road network budget to the SWTP. If there was no overspend, then why was £1m transferred from a different budget to the SWTP. It was explained that SWTP had a capital budget of £35m, £27m was from the Department of Transport (DoT) and £8m from the council. The chief finance officer again confirmed that he was not aware of any overspend on this project.

A member of the committee requested that there be no further spend on the SWTP project until there had been assurances given to the committee that this project was compliant with the current project management and governance process. The chief finance officer explained that as the approved project was now moving into the next phase, there would be expenditure incurred and he was unaware of any reason to delay that spend.

The chief finance officer confirmed that the DoT will pass the funding to the LEP which would then be passed to the council.

#### Compliance with contract and finance procedure rules - revenue

A member of the committee indicated that the findings of this audit appeared to parallel the issues with regard to the capital budget. In particular there was a lack of governance which appeared to replicate the issue of contract management for capital projects.

Following a query from a member of the committee, it was confirmed that the audit into the declarations of personal and business interests had been not removed but had been deferred and would need to be added to the 2019/20 internal audit plan. The reason for the deferment was that the implementation of a new process had been delayed for the declaration of those interests.

## **RESOLVED**

**That the report be noted.**

### **362. INTERNAL AUDIT PLAN 2019-20**

The head of internal audit presented the report.

Following a query from a member of the committee, it was confirmed that with the exception of one member of staff, none of the SWAP employees had previously been employed by Herefordshire Council.

With regard to the internal audit plan for 2019/20, the following points were raised during the discussion.

- The audit into the SWTP be the first audit of the plan.
- The audit into DRP projects be included and repeated as it was the largest capital expenditure over the next few years. It was confirmed that the governance arrangements for the DRP would be looked at during 2019/20. It was further noted that there were other councils working with Keepmoat and Engie and it would be sensible to see if the learning from those councils could be brought into the audit.
- The independent reviewing officer service (IRO) audit was a priority as it had been raised as a serious issue during the extraordinary council meeting.
- That the recruitment of social workers would be an appropriate topic for review.

## **RESOLVED**

**That**

- (a) the proposed internal audit plan 2019-20 at appendix A be noted; and**
- (b) the internal audit charter at appendix B be approved**

### **363. EXTERNAL AUDIT PROGRESS REPORT**

Grant Thornton presented the report and highlighted that there were no issues to report to the committee at this stage of the audit.

It was noted that as indicated at the January meeting of the committee, there had been change to the materiality levels. The materiality figure had been increased and had been signed off by the technical team at Grant Thornton.

Grant Thornton reported that the change of materiality was a pilot and that Herefordshire was the only council within the pilot. It was explained that in

comparison to other councils, Herefordshire had a large asset base compared to expenditure. Traditionally, materiality was based on expenditure which meant that more work was required on the Herefordshire external audit in relation to property, plant and equipment. The outcome of this pilot would be reported in the summer and if it was successful would be sent to the Financial Reporting Council (FRC) for approval for use across all councils who were clients of Grant Thornton and would potentially be adopted by other regulatory bodies.

A member of the committee requested that as Herefordshire would be the only council in the pilot that Herefordshire was not used and that the current materiality level was used.

A member of the committee indicated that there was little justification provided as to why there should be a change in the materiality level, especially as there was a 50% increase in materiality. It appeared that the only reason was that Grant Thornton had needed to undertake further work as part of the 2017/18 audit which had incurred a cost to the council.

It was noted that Grant Thornton's professional opinion was that the change in materiality was the best approach for Herefordshire. The committee agreed that it would be helpful if a training session on materiality could be arranged prior to the July meeting.

Grant Thornton confirmed that they had already undertaken some tests in this year's audit based on the new materiality levels.

It was confirmed that as part of the July report to the committee on the audit of the accounts, there would be a number of appendices which would include audit adjustments over £500k and non-adjustments to the accounts. Where there had been no adjustments, it would be at the committee's discretion as to whether there were amendments to the accounts.

The committee were advised that the determination of the level of materiality was a matter that rested with the External Auditor.

Councillor EJP Harvey proposed and Councillor EE Chowns seconded the following:

That Grant Thornton be asked to consider maintaining the level of materiality for 2018/19 accounts for reporting purposes at same level as previous years

Vote:

6 for

1 Against.

## **RESOLVED**

**That:**

- (a) The report be noted; and**
- (b) Grant Thornton be asked to consider maintaining the level of materiality for 2018/19 accounts for reporting purposes at same level as previous years**

#### **364. CERTIFICATE OF COMPLETION OF AUDIT**

The chief finance officer and Grant Thornton presented the report.

It was noted that there had been progress but that the certificate of completion of the audit had still not been issued. Grant Thornton had issued an unqualified opinion with regard to the audit conclusions and value for money.

Grant Thornton confirmed that there were regular progress reports from the council and acknowledged that the process would take time. However, they would not be able to issue the certificates until the process had been completed.

It was noted that the issue was complex and reliant on external bodies to undertake work.

Members of the committee expressed concern that this issue was still unresolved and it appeared that there was nothing that they could do to expedite the matter.

The head of corporate governance reiterated the offer made at the January 2019 meeting that if the committee wished, a private meeting could be arranged so that members could receive an exempt report and briefing on the issue.

At 1619 hours Councillor EJP Harvey resigned from the committee with immediate effect and left the meeting.

Members of the committee indicated that they had shown patience with regard to this issue but they remained concerned and agreed that the audit and governance committee formed following the May 2019 local elections be briefed on the issue in private session.

#### **RESOLVED**

**That: (a) the report be noted; and  
(b) that this committee recommends that the committee formed after the May 2019 election be briefed in private session on this issue.**

#### **365. ANNUAL GOVERNANCE STATEMENT 2018/19**

The head of corporate governance presented the report and highlighted:

- That the annual governance statement was the first draft;
- As the year end was 31 March 2019, there are a number of pieces of information which are not yet available.
- The draft statement will be updated before it is published at the end of May 2019 which is in line with statutory deadlines.
- The document was a high level statement of the council's arrangement and the assessment of the current performance against it.
- The committee will have an opportunity to comment on the document at its July 2019 before it is published.

- An action plan would form part of the statement which would be presented to the July meeting and a progress report would be presented at the January 2020 meeting.

Following a query from a member of the committee, it was confirmed that any changes to the arrangements for dealing with code of conduct complaints should form part of a future report. It was noted that a working group had recently made recommendations to the monitoring officer for changes to these arrangements. The head of corporate governance reported that since October 2018 to 19 March 2019, there had been no instances of code of conduct complaints being rejected without the views of the independent person being sought. As stated in the annual governance statement, this issue was considered to be low risk.

A member of the committee suggested that the lack of consultation on the capital programme should be looked at as part of the internal audit work programme.

Following a query from a member of the committee, it was confirmed that each time internal audit undertake a review, they do look at the strategies, policies relevant to that area and do make recommendations.

#### **RESOLVED**

**That the committee notes the draft annual governance statement at appendix 1.**

#### **366. WORK PROGRAMME UPDATE**

The work programme for 2019/20 was presented.

#### **RESOLVED**

**That the updated work programme be agreed.**

#### **367. PROVISIONAL MEETING DATES FOR 2019/20**

The provisional dates were noted.

The meeting ended at 4.46 pm

**Chairperson**





## APPENDIX 1

**PUBLIC QUESTIONS AND ANSWERS TO  
AUDIT AND GOVERNANCE COMMITTEE  
19 MARCH 2019**

Question 1

Mrs E Morawiecka, Breinton

£4.9million has been spent on professional fees in respect of the South Wye Transport Package (SWTP) when only £2.75million has been authorised by councillors to be spent on such fees. The SWAP review of capital spending on the SWTP was expected to come to the Audit & Governance meeting on two previous occasions. This matter has been deferred again, now due to the Strategic Capital Finance Manager saying that the “project was not at a point on its journey where it could be used to test compliance with the actions put in place following Blueschool House” The project is nearly 5 years old and 20% spent out, having already cost £6.9million. At what point in the lifetime of a capital project should compliance testing could be done so as to minimise financial risk?

Response

The council does not normally carry out 100% compliance testing as it places reliance on internal systems and processes. the council adopts a risk based approach to how it decides how best to deploy its internal audit resources so this means that for capital projects that cover a number of years it is likely that a number of elements of a project are examined by internal audit during the life of a project rather than a one off compliance test as mentioned in the question.

The Audit and Governance Committee approves the internal audit plan. On today’s agenda the committee is asked to approve next year’s plan.

Supplementary question

The project started in 2014 and by now well over £6m spent out and from the answer it indicates that a number of the elements of the project have already been examined by internal audit and checked for compliance. In view of that what was the outcome of these checks and why haven’t these checks been reported to this committee today?

Supplementary response

A written reply will be provided within 10 days.

Written response

The council uses a number of systems and processes to manage expenditure and commitments, these systems and processes are used for the South Wye Transport Package as well as other revenue and capital projects. The council gains assurance that these systems and processes are followed in a number of ways. Assurance as to the compliance with these systems and processes is provided by internal audit. The Council’s internal auditors follow an agreed plan of audits the plan is presented annually to the Audit and

Governance committee, and the committee receives regular reports of the findings of these audits. The plan and update reports are available on the council's website.

## Question 2

Ms J Tonge, Hereford

After a number of years there is still no audit certificate for the Council's accounts for the year 2016/17. As the Council is handing public money when can we the public expect to receive a report as to why the audit certificate has been withheld for so long?

## Response

There is an item on today's agenda that deals with the issue of the Councils External auditors issuing the completion certificate.

## Supplementary question

When can we the public, especially those who are unable to attend today, and those who have to go back to back to work, expect to receive a written report as it is nearly 3 years late and its public money. When will it be available to us?

## Supplementary response

A written reply will be provided within 10 days.

## Written response

The agenda, reports and minutes of the Audit and Governance committee are published on the council's website along with audio recordings of the meetings, this enables people who are unable to attend meetings to follow the issues considered by the committee and to follow the committee's deliberations. The issue of the completion certificate was debated by the committee and it was recognised that at this point it is not possible to give an exact date when the matter will be resolved, however the committee agreed to the issue if it has not been resolved in the mean time being discussed at its next meeting.

## Question 3

Mr R Stow, Rowleston

In Taylor v Honiton Town Council [2016] EWHC 3307 (Admin), Mr Justice Edis considered the intention of Parliament in s 28 of the Localism Act 2011. He held that it was to be inferred from s 28(8) "that Parliament considered that the role of the Independent Person was of real importance" [29]. He also held that the duty to involve Independent Persons in decision-making was an "important safeguard" [33].

With respect to conduct complaints regarding members of Herefordshire Council, Herefordshire Council's officers are not independent and will not be perceived by the public as impartial.

Given the need to maintain public trust in councillors and local democracy, why does the

Audit & Governance Committee allow Herefordshire Council officers to reject conduct complaints against Herefordshire Councillors, acting without any consultation of the Independent Person?

Response

The council's arrangements for dealing with code of conduct complaints involves an initial assessment process to decide whether to accept or reject a complaint. This process is undertaken by council officers and it does provide the safeguard that the officer may seek the views of the independent person. This procedure is seen as a reasonable way to triage complaints when they are first received and provides the safeguard of involving the independent person. The Localism Act does not require the independent person to be involved at this stage but this council holds the independent check and balance that the role of the Independent person can provide as invaluable as did Mr Justice Edis in the case quoted and added this additional safeguard into our own arrangements.

When the standards panel met on 13 November 2019, they reviewed all 14 complaints rejected at the initial assessment, without the views of the independent person, and were satisfied that the approach for seeking the independent person's views was appropriate. Overall the conclusion of the panel was that the arrangements for dealing with code of conduct complaints are appropriate and consistency applied.



## APPENDIX 2

**MEMBERS QUESTIONS AND ANSWERS TO  
AUDIT AND GOVERNANCE COMMITTEE  
19 MARCH 2019**

Councillor EPJ Harvey, Ledbury North

Question

Given that the South Wye Transport Package is a capital programme which has been in existence since 2014 and has already spent more than £5m (15%) of its £35m capital budget, please will the Chairman seek clarification for this Committee from the Chief Executive regarding whether the Chief Executive considers it to be acceptable that this project is still judged not to be to be 'at a point on its journey' – whatever that means - when it may be used to test whether its delivery is in compliance with the professional project management practices required by council to which he personally committed himself in July 2018?"

Response

I understand from the Head of Internal Audit's report that the compliance testing was to ascertain the embedding of the new project management software system which has been introduced in response to the Blueschool House recommendations. That can only be tested once an existing project has been migrated to that system, and this is being done in a phased way. Any assumption that because a project hasn't yet been migrated to the new software it is not being managed appropriately would not be an appropriate assumption. The South Wye Transport Package has been and is being project managed and internal audit are scheduled to undertake a full audit of the project in the coming year

Supplementary question

I have made no assumptions in my carefully worded question as to the appropriateness or otherwise of the management of this project. I ask again since the committee gave clear notice at its meeting in November that this project which is 5 years old and over £5m spent on a £32m budget would be subject to assessment for its compliance with the project management and governance processes agreed by the chief executive back in July 2018. Do our internal auditor, monitoring officer, S151 officer and chief executive each consider it acceptable that no assurance has been provided yet again to this committee of the degree of this project's current compliance with adopted governance and project management practices?

Supplementary response

A written reply will be provided within 10 days.

Written response

I have asked the officers named in the question and they advise that the council places reliance on a range of controls and systems that provide assurance that the South Wye Transport package is well managed and complies with the council's governance and financial controls.

A risk based approach was used to decide the order in which projects were migrated to Verto, and as officers explained at the committee meeting Verto is designed to complement existing project management controls by holding pertinent information in one place.

The internal audit plan progress report presented to the committee provides an update on SWAP's work on the internal control improvement board. The committee agreed that when SWAP have completed their work the report will be circulated to members of the committee.

The committee approved the internal audit work plan for 2019/2020 which includes a scheduled review of the South Wye Transport Project. The committee was assured that the audit would be carried out in the first quarter of 2019/2020.