

Minutes of the meeting of Audit and governance committee held at Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Friday 30 July 2021 at 10.15 am

Present: Councillors Nigel Shaw (Chairperson), Christy Bolderson (Vice-chairperson), Jenny Bartlett, Sebastian Bowen, Peter Jinman, and David Summers

In attendance: Councillors Liz Harvey (Cabinet member - finance, corporate services and planning)* and Yolande Watson*

Officers: Ben Baugh (Democratic services officer), Matthew Evans (Democratic services officer), Andrew Lovegrove (Acting deputy chief executive - chief finance officer), Jenny Preece (Democratic services officer), Josie Rushgrove (Head of corporate finance)* and Kate Charlton (Interim head of legal services)

Others present: Jacqui Gooding (South West Audit Partnership)*, Jon Roberts (Grant Thornton) and Amy Probert (South West Audit Partnership)*

[* indicates attendance as a virtual participant]

10 APOLOGIES FOR ABSENCE

Apologies for absence had been received from committee members Councillors Dave Boulter and Bob Matthews. Councillor Watson was unable to attend in person but participated in the meeting as a non-voting, virtual participant.

11 NAMED SUBSTITUTES

The following substitutes were noted: Councillor Sebastian Bowen for Councillor Bob Matthews; and Councillor David Summers for Councillor Dave Boulter.

12 DECLARATIONS OF INTEREST

No declarations of interest were made.

13 MINUTES

The minutes of the meeting held on 28 June 2021 were received.

Attention was drawn to the action log attached to the minutes. It was commented that the changes that had been made following the last meeting, highlighting updates in red font and new actions in blue font, were helpful.

Resolved: That the minutes of the meeting held on 28 June 2021 be approved as a correct record and be signed by the chairperson.

14 QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received from members of the public.

15 QUESTIONS FROM COUNCILLORS

No questions had been received from councillors.

16 2019/20 EXTERNAL AUDIT FINDINGS REPORT

The committee considered the external audit findings report for the year ended 31 March 2020.

Jon Roberts, engagement lead for Grant Thornton, presented the report and made the following key points: the report was being received later than usual due to issues around value for money; an initial external audit findings report had been provided to the committee in September 2020 and 'The Audit Findings for Herefordshire' document attached at appendix A to the report indicated original text in black font and new text in red font; it was reported that the council had proper arrangements in place in all areas considered, except for in relation to the governance over the capital programme and children's services and a qualified conclusion was issued in respect of the value for money assessment; attention was drawn to the value for money sections and the significant risks identified which would be reflected in the external auditors annual plan 2020/21; a matter which had resulted in certificates of completion being withheld for a number of years had been addressed; and an overview was provided of the reasons for the proposed audit fee variations.

Questions and comments were invited from committee members and responses were provided, the principal points included:

1. The additional explanations provided since the previous iteration were welcomed and it was suggested that a separate glossary would be helpful going forward.
2. With reference made to the finding in the 'Value for Money' money section (agenda page 42) - 'The Cabinet member for infrastructure and transport proposed that a progress review be brought back to Cabinet after six months. Whilst the Council is working on implementing these recommendations, the six-month review suggested by Cabinet has not been achieved.' - it was commented that the 'Major contract performance update' report had been considered by Cabinet on 29 July 2021 (minute 32 of 2021/22 refers), so the finding did not reflect the current situation. The chairperson noted the position with reporting post balance sheet events and suggested that such reports needed to be specific about the date of publication, so that it was clear that subsequent events would not be reflected in the report. Jon Roberts confirmed that the report commented on the adequacy of the arrangements for the financial year ended 31 March 2020.
3. In response to a question about journal authorisation (agenda page 48), Jon Roberts explained the significance of journals and that the risk of management override of internal controls was included in every audit plan. The chief finance officer confirmed that he was assured about the systems and processes in place but had undertaken to explore local amendments to Business World. It was confirmed that this situation was encountered within other authorities who shared concern about customising financial software packages and the subsequent risk that that entailed.
4. With reference made to the comment 'We have continued our review of relevant documents up to the date of giving our report, and have identified one further significant risk where we needed to perform further work.' (agenda page 39), Jon Roberts advised that the risk related to the legal judgement for children's services.
5. In response to a question about the role of the committee historically and going forward in terms of the capital programme and children's services, the chairperson commented on the work to be undertaken by the auditors and the expectation that reports would be provided to the committee, and also potentially the views of the relevant scrutiny committees on the changes being made to governance within departmental structures. With reference made to the internal report presented in January 2018 on 'Capital project management and control internal audit progress update' (minute 263 of 2018/19 refers), the chairperson suggested that the South West Audit Partnership be asked to revisit their

report and to unpack why issues that had come to light were not noted at that time. The chief finance officer reported that cabinet had agreed to the establishment of an improvement board (minute 32 of 2021/22 refers) and the terms of the scope of an investigation were being finalised.

6. The cabinet member - finance, corporate services and planning said that there was frustration that points of concern had been brought to the attention of the auditors by the administration, and said that it had undertaken actions to investigate and seek a resolution. Comments were also made about the need for auditors to add value, the limitations councillors faced in trying to access information themselves, and matters relating to expenditure not picked up in an internal audit report on the Hereford City Centre Transport Package (HCCTP) in 2016.

Jon Roberts outlined the differences in the approach of external and internal auditors, and commented that cashflow governance had been a feature of the value for money assessment in recent years and the evidence in 2019/20 was such that a qualified conclusion was issued.

The chairperson noted that, following the Code of Audit Practice 2020/21, there would be a revised approach to the value for money external audit work and suggested that committee members be provided with training on the changes.

Jacqui Gooding, internal audit manager for South West Audit Partnership, said that: there had been a number of audits in relation to the capital programme; an investigation report on Blueschool House had been provided to the committee; continuing work on the HCCTP would include a review of the recommendations and issues that were raised in relation to Blueschool House; and significant findings were reported to the committee.

7. In response to a question from a committee member about contracts, particularly in relation to council estate, the chairperson suggested that a response be provided by the chief finance officer following the meeting.
8. It was commented that the committee membership could change, there were substitutions at individual meetings, and the papers for each meeting could include hundreds of pages. It was suggested that the internal and external auditors could provide a simple list of their concerns that the committee should perhaps concentrate on. The chairperson acknowledged the challenges for new members to the committee and invited the auditors to consider whether this suggestion would be appropriate.
9. The vice-chairperson noted that periodic reports on the progress of audit recommendations implementation were provided to the committee and it was questioned whether the tracking was falling down. It was also noted that there were follow up audits on priority 1 and priority 2 recommendations. Jacqui Gooding outlined the current arrangements and confirmed that priority 3 recommendations progress was based on self-assessment by relevant officers. A committee member emphasised the need to ensure that systems and processes were effective.

Resolved: That

- a) **the report of the external auditor, attached at appendix A to the report, has been considered;**
- b) **interim reports on the work of the external auditor be provided to the committee;**

- c) **the chief finance officer request that the internal auditor be asked to revisit the earlier report on the Hereford City Centre Transport Package in order to identify any lessons to be learnt; and**
- d) **the following actions be recorded:**
 - i. **the external auditor be asked to include appropriate glossaries in future reports for ease of understanding and to identify dates of publication clearly;**
 - ii. **training be arranged for committee members on the changes to regulations, particularly in relation to the value for money audit; and**
 - iii. **a briefing note on the management of council estate be provided to committee members.**

17 ANNUAL GOVERNANCE STATEMENT – FINAL FOR 2019/2020

In accordance with paragraph 4.2.13 (b) of the Council's constitution, the chairperson considered that this item should be discussed at this meeting as a matter of urgency.

The committee considered the annual governance statement 2019/20.

The vice-chairperson drew attention to the 'Principle B: Ensuring openness and comprehensive stakeholder engagement' section (supplement page 32) and it was suggested that consideration be given to the syntax of the sentence 'Whilst the council supports and advises suggestion from independent person is to tightening of rules covering training, disclosure and complaint resolution for parish councillors'. The interim head of legal services agreed to reword the sentence.

Resolved: That the annual governance statement 2019/20, at appendix 1 of the report, be approved.

18 ANNUAL GOVERNANCE STATEMENT – DRAFT FOR 2020/2021

In accordance with paragraph 4.2.13 (b) of the Council's constitution, the chairperson considered that this item should be discussed at this meeting as a matter of urgency.

The chairperson said that the draft annual governance statement for 2020/21 appeared to contain inconsistencies and errors of fact, he was not satisfied with the document in its present state, and questioned whether this item could be deferred. In response, the interim head of legal services explained the publication of documents requirements under The Accounts and Audit (Amendment) Regulations 2021. The chairperson noted that the document was now in the public domain. The chief finance officer said that the draft statement could be published with a note to identify that it would be subject to further work and revisions.

Committee members discussed the matter, the key points included:

1. Concern was expressed that the document had been circulated after the publication of the main agenda pack, thereby reducing the time available to read it.
2. The vice-chairperson said that various queries about the document had been forwarded to the relevant officers.
3. In response to a question from a committee member on the 'significant partnerships 2020/21' section, Jacqui Gooding, internal audit manager for South West Audit Partnership, said that it was up to officers to address the recommendations of a SWAP

audit but an update would be sought on the position in relation to the Local Family Justice Board.

4. Consideration was given to the work to be undertaken by officers to address committee members' concerns, for the committee to reconvene to receive an updated document, and for a revised draft annual governance statement to be released in due course.
5. A committee member acknowledged that the Covid 19 pandemic had impacted on the normal course of business but was uncomfortable with the position with this document.
6. Committee members were requested to forward their comments on the document to councillorservices@herefordshire.gov.uk

The intention to revisit an updated document at the next committee meeting was noted.

Resolved: That the document was noted. That an amended draft document be considered at the next committee meeting.

19 2019/20 STATEMENT OF ACCOUNTS

The committee considered the 2019/20 statement of accounts and associated letter of representation to Grant Thornton, the external auditors.

The head of corporate finance presented the report, the principal points included: the position with the delivery of an overall underspend in 2019/20 of £0.6m and the increase in the general reserve balance to £9.1m; the increase in earmarked reserves due to the allocation of grant funding from central government due to the Covid 19 pandemic; and asset valuations were reported as being subject to 'material valuation uncertainty' as a precaution to reflect the potential impact of the pandemic on the economy.

Questions and comments were invited from committee members and responses were provided, the principal points included:

1. With reference made to the 'legal implications' section of the report (agenda page 67), it was requested that all dates include the relevant year.
2. There was a discussion about revaluations in terms of property, plant and equipment. Jon Roberts, engagement lead for Grant Thornton, advised that International Standard on Audit (UK) 540 (revised) would require the committee to have a full understanding of the estimation processes that the council had followed and auditors would be undertaking more work in this area. The chairperson noted the need for training to be arranged for committee members.
3. In response to questions, the chief finance officer: acknowledged the underspend in adults and communities and commented on the challenges associated with balancing the budget to the penny for services which were dependent on people's needs; noted that the outturn had been reported to cabinet on 25 June 2020 (minute 157 refers); and confirmed that the allocation of the budget, including the adult social care precept, was agreed by Council.
4. In response to a question on 'Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2020 is £259.5m' (agenda page 79), the chief finance officer provided an overview of the position with the pension fund. The chairperson noted the public availability of the minutes of the Pensions Committee (note: at the time of publication, these can be found via the following link: <https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CommitteId=391>).

5. There was a further discussion about the treatment of valuations in the accounts and the possible impact of the pandemic on land and property prices.
6. With reference made to the '1.3 Borrowing Costs' section in the statement of accounts (agenda page 92), it was questioned whether 'at least £10k of annual interest cost' for certain schemes was appropriate given current interest rates. The chief finance officer said that this de minimis level had been in place for some time and was broadly in line with other authorities but it could be looked at.
7. In response to a question, the chief finance officer commented on property maintenance and insurance provision.
8. The chairperson requested further information on aged debts and the quantum involved. Jon Roberts noted that the audit of aged debts was an important procedure and agreed to come back on this issue.

Recommendation a) was agreed unanimously. In accordance with paragraph 4.1.141 of the Council's constitution, a recorded vote was held on recommendation b) and this was also agreed unanimously by Councillors Bartlett, Bolderson, Bowen, Jinman, Summers and Shaw.

Resolved: That

- a) **the 2019/20 statement of accounts, at appendix A to the report, be approved; and**
- b) **the letter of representation, at appendix B to the report, be signed by the chairman of the committee and the chief finance officer.**

[Note: the meeting was adjourned for a comfort break between 12.15 pm and 12.30 pm]

20 ANNUAL EXTERNAL AUDIT LETTER 2019/20

The committee received the external auditor's annual audit letter for 2019/20.

As per the point made in minute 16, paragraph 2. above, a committee member re-iterated that the 'Major contract performance update' report had been considered by Cabinet on 29 July 2021 (minute 32 of 2021/22 refers), so a comment on agenda page 200 did not reflect the current situation.

Resolved: That, having regard to the external auditor's annual audit letter 2019/20, as at appendix A to the report, the committee did not determine any further actions to be recommended or items to be included in the work programme specifically arising from the document.

21 EXTERNAL AUDITORS ANNUAL PLAN 2020/21

The committee reviewed the external auditor's audit plan for 2020/21.

Jon Roberts, engagement lead for Grant Thornton, presented the report, with attention drawn to: the significant risks requiring special audit consideration; the changes arising from the new Code of Audit Practice and the new auditing accounting estimates standard; and the audit fees section.

The chairperson commented on the need to engage with the council's valuers and actuaries to enhance the understanding of the committee. In response to questions from the chairperson:

- The chief finance officer said that he was content that the 'risks of significant VFM weaknesses' (agenda page 229) were a fair reflection of the council's position and noted that financial sustainability was a live topic for all local authorities and the council had its own financial pressures.
- Jon Roberts said that he would confirm whether the council's counter fraud specialist had been involved in the fraud risk assessment (agenda pages 250-255) and commented on fraud risk assessment from an accounting perspective.

Questions and comments were invited from committee members and responses were provided, the principal points included:

1. In response to a question from the vice-chairperson regarding the difference in the scale fee published by Public Sector Audit Appointments Ltd (PSAA) of £95,792 and the total audit fees of £156,792 ('Audit fees – detailed analysis', agenda page 233), Jon Roberts: confirmed that the quantum of work expected by the regulator had increased; commented on the findings of the 'Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting' by Sir Tony Redmond; and, in response to the findings of the Redmond Review, the government had announced additional funding in 2021/22 to support local bodies to meet the anticipated rise in audit fees; noted the potential impact of other standards going forward, such as the International Financial Reporting Standard 16 relating to leases; and said that he would provide further clarification on 'local risk factors'.
2. It was noted that there were some erroneous references to this committee being the 'audit and procurement committee' and not the 'audit and governance committee'.
3. In response to a question from a committee member, the chief finance officer provided a brief overview of the council's involvement in Hoople Ltd, said that this was reflected in the group financial statements, and noted that an undertaking had been given to provide the committee with an overview of how the company operated and managed its risks. It was noted that the council was also involved in a range of partnerships. In response to a further question from the vice-chairperson on a point made in the annual governance statement 2019/20 (agenda supplement page 37), the chief finance officer confirmed that a project board was to be established to manage the council's relationship with Hoople Ltd.
4. In response to a question from a member in attendance about the risks associated with the governance of the Public Realm contract and the Hereford City Centre Transport Package (agenda page 229), Jon Roberts said that the reviews were likely to look at the arrangements ensuring that the regularity of budget setting and reporting were preserved.
5. In response to further questions on the audit fees, Jon Roberts confirmed that the line for 'Covid-19' related to the additional risk based work arising from the pandemic and noted the potential for further work to be undertaken on grants accounting.

Resolved: That

- a) **the proposed external audit plan 2020/21, at appendix A to the report, and associated informing the audit risk assessment, at appendix B to the report, be approved; and**
- b) **the committee did not determine any recommendations and it wished to record the following actions to be undertaken by the external auditor:**

- i. **confirmation be provided about whether the council's counter fraud specialist had been involved in the fraud risk assessment;**
- ii. **further clarification be provided on the 'local risk factors' identified in the 'Audit fees – detailed analysis' section; and**
- iii. **references to the 'audit and procurement committee' be amended.**

22 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2020/21

The committee considered the head of internal audit's annual report and opinion.

Jacqui Gooding, internal audit manager for South West Audit Partnership (SWAP), presented the report and, drawing attention to the 'Internal Audit Annual Opinion Report 2020/21' included at appendix A, summarised the key points of the 'Executive Summary', 'Internal Audit Annual Opinion 2020/21', and 'Plan Performance 2020/21' sections. It was reported that, having considered the balance of the 2020/21 audit work, a 'reasonable assurance' opinion was offered in respect of the areas reviewed during the year.

Questions and comments were invited from committee members and responses were provided, the principal points included:

1. The vice-chairperson welcomed reference to the introduction of a 'new one-page audit report, that summarises all the key messages of the audit' (agenda page 282) but noted that these had not yet been received at a committee level, and felt that these could provide committee members with a better understanding of the scope and work involved.

In response to a question about the 'Summary of Internal Audit Work 2020/21' section and the 'reasonable' opinion in relation to 'Capital Programme / Capital Projects' (agenda page 285), Jacqui Gooding emphasised that this report would reflect a point in time, adding that internal audit had recently been asked to undertake additional work on the Hereford City Centre Transport Package (HCCTP). In response to a further question, it was commented that a lot of work had been undertaken to establish controls for capital programme / capital projects but this had not been fully implemented or embedded yet across the council.
2. A member in attendance, noting that there were no priority 1 actions and 12% of audit opinions were 'limited', questioned how Herefordshire compared to other local authorities. Jacqui Gooding said that information could be provided to committee members and briefly outlined how the audit opinions for 2020/21 compared to 2019/20.
3. With reference made to the comment 'As a result of the additional work arising from the COVID-19 pandemic, it has been agreed to defer some of the less urgent audit work to 2021/22' (agenda page 275) and in response to a question, Jacqui Gooding confirmed that a report had been provided to the audit committee outlining the work that had been deferred and quarterly planning meetings were being held with relevant officers to identify those deferred audits which should be included in the 2021/22 plan. It was noted that the position would be made clear in the progress report due to be received at the next committee meeting.
4. A committee member commented on potential risks associated with mental health and the long-term effects of Covid on the council's resources.
5. The chairperson said it would be helpful to understand the date on which any elected member of the council had been informed about the overspend on the HCCTP. Jacqui

Gooding advised that a new piece of work that had been commissioned which would include a review of what was reported and at what time during the process.

6. In response to a question from a member in attendance, the interim head of legal services advised that Schedule 12A (access to information: exempt information) of the Local Government Act 1972 set out various categories of confidential information and agreed to circulate related guidance.

The cabinet member - finance, corporate services and planning commented that: the 'Hereford City centre Transport Package – Governance Review' (referenced on agenda page 287) related to an advisory report undertaken in 2020, and this had resulted in an internal investigation report (a summary was appended to the report 'Major contract performance update' considered by cabinet on 29 July 2021); a new piece of work had been commissioned by the chief executive recently; and a question to cabinet was received and responded to in relation to member awareness of the overspend which was on the public record.

Resolved: That

- a) **The committee noted the assurance provided by the annual opinion report 2020-2021, at appendix A to the report; and**
- b) **the following actions be recorded:**
 - i. **SWAP be asked to provide a comparison of how audit opinions for Herefordshire Council compared to other local authorities;**
 - ii. **the next progress report on the internal audit plan makes clear the audit work that had been deferred or removed from the plan; and**
 - iii. **information about Schedule 12A (access to information: exempt information) of the Local Government Act 1972 be circulated to committee members.**

23 COMMITTEE WORK PROGRAMME

The committee considered its work programme.

It was suggested that the format of the work programme document, as at Appendix 1 to the report, be adjusted to split the rows across more than one page.

Further to minute 18 above, the committee discussed the potential to hold an additional meeting to discuss the draft annual governance statement for 2020/21. Following further reflection, it was considered that the item should be considered at the next scheduled meeting.

Resolved: That the work programme be agreed.

24 DATE OF NEXT MEETING

It was reported that the Solicitor to the Council had requested that the next meeting be brought forward from 30 September to 27 September 2021 to assist with the consideration of proposals from the re-thinking governance working group and the subsequent passage of a report to Council.

It was agreed that the next scheduled meeting would be held on Monday 27 September 2021.

The meeting ended at 1.41 pm

Chairperson