

## **Minutes of the meeting of the Audit and Governance Committee held in Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Friday 23 June 2023 at 10.00 am**

**Committee members present in person and voting:** Councillors: Polly Andrews, Frank Cornthwaite, Peter Hamblin, Robert Highfield, David Hitchiner (Chairperson), Aubrey Oliver (Vice-Chairperson) and Mark Woodall

Others in attendance: P Barber (Director, Grant Thornton), G Beal (Public Sector Assurance VfM Specialist, Grant Thornton), J Coleman (Democratic Services Manager), J Davies (Principal Auditor, South West Audit Partnership), I Halstead (Assistant Director, South West Audit Partnership), R Hart (Head of Strategic Finance), A Lovegrove (Director of Resources and Assurance), H Merricks-Murgatroyd (Democratic Services Officer), S O'Connor (Head of Legal Services and Deputy Monitoring Officer), A Rees-Glinos (Democratic Services Support Officer), Pete Stoddart (Cabinet Member Finance and Corporate Services) and D Upton (Senior Lawyer, Corporate Services)

### **1. APOLOGIES FOR ABSENCE**

Apologies for absence had been received from Councillor Chris Bartrum.

### **2. NAMED SUBSTITUTES**

Councillor Polly Andrews was present as the substitute for Councillor Chris Bartrum.

### **3. DECLARATIONS OF INTEREST**

No declarations of interest were made.

### **4. MINUTES**

The minutes of the previous meeting were received.

#### **RESOLVED:**

**That the minutes of the meeting held on 13 March 2023 be confirmed as a correct record and be signed by the Chairperson.**

### **5. QUESTIONS FROM MEMBERS OF THE PUBLIC**

Questions received from members of the public and the responses given, including a supplementary question and the response, attached as Appendix 1 to the minutes.

### **6. QUESTIONS FROM COUNCILLORS**

A question received from a councillor and the response attached as Appendix 2 to the minutes.

## 7. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY Q4 2022/23

The Assistant Director, South West Audit Partnership (SWAP) advised the committee that SWAP provided the internal audit service to the council and made the following comments about the cycle of internal audit activity: the internal audit plan would be updated bi-annually to ensure that the plan was agile and reflected changing risks and corporate priorities; a progress report would be provided quarterly, including an indicative opinion in terms of the internal control environment; and an annual report would be provided to summarise the work undertaken during the year and to provide an opinion on overall arrangements, as well as key recommendations.

The Assistant Director drew attention to the 'Report on Internal Audit Activity, Quarter 4 2022/23' (Appendix A to the report) and highlighted the following:

- i. 46 assignments had been completed;
- ii. internal audit work was on track to deliver an annual audit opinion;
- iii. the indicative annual audit opinion for 2022/23 was 'reasonable';
- iv. 100 actions had been identified to date and agreed with the client;
- v. the overall coverage of strategic risks and corporate objectives had been assessed as 'adequate' at this point;
- vi. advisory and special investigation work was being undertaken;
- vii. there were no high corporate risks identified in the quarter but control assurance was 'limited' in relation to Registration Services, Housing Solutions, and the Leavers Process with details to be reported to the next meeting of the committee;
- viii. SWAP would be migrating to a new audit management system in Quarter 2 2023/24 which would provide real-time dashboards to officers and members; and
- ix. Annex 2 (agenda pages 32 - 37) provided a table of audits by status.

In response to questions, the Assistant Director advised that:

1. The committee could seek assurance that the identified risks had been mitigated in terms of the audits with limited opinions.
2. The details of the special investigations would remain confidential until the end of formal processes.
3. Training would be provided for committee members on the new dashboards in due course.

**Resolved: That the committee**

- a) **has reviewed the areas of activity and concern and is satisfied that necessary improvements have been outlined; and**
- b) **has noted the report and has considered the assurances provided and the recommendations which the report makes.**

Action(s)

2023/24-001 That training be provided to committee members on the new audit management system dashboards.

## 8. INTERNAL AUDIT PLAN AND CHARTER 2023/24

The Assistant Director, South West Audit Partnership (SWAP), introduced the report, drew attention to the 'Internal Audit Plan 2023-23 and Internal Audit Charter' paper (Appendix 1 to the report), and highlighted the following:

- i. the factors that had influenced the proposed internal audit plan;
- ii. the intended coverage of the key corporate objectives and risks, under the headings of 'environmental', 'economy', and 'community', as well as core assurance areas;
- iii. risk coverage missing from the plan included 'Ash Dieback (Chalara)';
- iv. the 2023/24 internal audit programme of work would be equivalent to 900 days;
- v. details of those jobs in progress or scheduled; and
- vi. the pipeline of the next assignments to be undertaken.

In response to questions:

1. The Assistant Director said that matters such as Ash Dieback did not align easily with internal audit work but it was understood that the council had arrangements in place to mitigate this risk; the Chairperson noted that this featured as risk CRR.67 in the Corporate Risk Register. The Director of Resources and Assurance commented on the role of Balfour Beatty Living Places in terms of the public realm and the handling of potential risks on behalf of the council, and suggested that a paper could be provided to committee members.
2. With reference made to a risk identified in the 'Report on Internal Audit Activity, Quarter 4 2022/23' (agenda page 26), the Assistant Director said that there was no intention currently to look at 'Waste Collection Vehicles' specifically. The Director of Resources and Assurance advised that the council was undertaking a procurement process to appoint a new contractor to handle waste collection services. The Assistant Director confirmed that 'Waste Strategy / Contract' was identified in the pipeline, and this risk could be considered in that piece of work.
3. The Assistant Director said that the audit assignments in progress or scheduled were informed by professional judgement rather than prioritisation. Some committee members suggested that consideration should be given to prioritisation.
4. With attention drawn to matters outlined in the 'Auditor's Annual Report on Herefordshire Council 2021/22' (agenda page 283) in relation to the 'Hereford City Centre Transport Package', the Assistant Director said that the status of priority actions that followed from the investigation would be reported to the committee.
5. With reference made to the Internal Audit Charter (agenda pages 55 – 57), the Assistant Director advised that SWAP had a number of internal quality review processes and an external quality review was undertaken every three years; the last review in 2021 found SWAP to be compliant with the required standards. It was noted that the charter promoted independence and objectivity.

**Resolved: That**

- a) **the internal audit plan and pipeline of future work to ensure there is sufficient coverage and delivery to give an annual opinion be approved; and**
- b) **the internal audit charter be approved.**

Action(s)

2023/24-002 That a paper on Ash Dieback, particularly in relation to the role of Balfour Beatty Living Places in handling potential risks, be provided to committee members.

## **9. EXTERNAL AUDITOR'S DRAFT ANNUAL PLAN 2022/23**

The Director, Grant Thornton UK LLP advised the committee that the responsibilities of the external auditor were twofold, to provide an opinion on the council's financial statements and to issue a Value for Money conclusion, and the Annual Plan set out the detail of the approach to discharging these responsibilities.

The Director explained:

- i. that planning and risk assessment had informed the draft Annual Plan 2022/23;
- ii. the process for undertaking substantive testing on the accounts;
- iii. the challenges presented by the national timeline;
- iv. that the council was one of few councils that had met the deadline for producing draft accounts by the end of May 2023 and the aspiration was to issue an opinion by the end of September 2023;
- v. the increasing complexity of local government accounts, including group accounts;
- vi. that materiality had been determined to be £9.0m for the council and £9.1m for the group;
- vii. the significant risks identified (agenda pages 69 - 72) were 'default risks' that would apply to most councils audited by Grant Thornton;
- viii. further details were provided about the approach to the risks relating to management over-ride of controls, the valuation of land and buildings and investment properties, and the valuation of pension fund net liability;
- ix. further details were provided about the approach to Value for Money work;
- x. the indicative audit fee for 2022/23 was £164,302; and
- xi. the 2021/22 final audit fee had been reduced by £1500 (to £190,167) following submission of the additional fees to Public Sector Audit Appointments.

On behalf of the committee, the Chairperson welcomed the work that was being undertaken to meet the statutory deadlines.

In response to questions, the Director commented on:

1. The increasing financial pressures in the public sector and why this could increase the risk of financial misreporting but it was emphasised that there was no indication of this in Herefordshire in the work undertaken to date.
2. The reasons for the higher audit fee in 2021/22, in part driven by an infrastructure issue nationally which required further work in all councils.
3. An overview was provided of the resource provided from international offices, predominantly in India and the Philippines, to support the capacity of UK based audit teams. There was a brief discussion about the labour and skills shortages in the sector and the associated risks.
4. How the budget setting process could continue in councils where the accounts were still open, albeit without confirmation of the accuracy of assumptions.

**Resolved: That:**

- a) **The 'Herefordshire Council Audit Plan, year ending 31 March 2023', Appendix A to the report, be approved;**
- b) **The 'Informing the audit risk assessment', Appendix B to the report, be noted; and**
- c) **The committee did not determine any further recommendations it wished to make to maximise the value of the combined internal and external audit processes at this time.**

**10. DRAFT ANNUAL GOVERNANCE STATEMENT 2022/23**

The Head of Strategic Finance presented the draft Annual Governance Statement (AGS) for 2022/23, the key points included:

- i. the AGS formed part of the Draft Statement of Accounts (see minute 11 below);
- ii. the AGS provided an overview of the governance arrangements for the year ended 31 March 2023;
- iii. the review of effectiveness demonstrated how the council had complied with the seven principles of the CIPFA / Solace Framework and identified areas where arrangements could be strengthened further; and
- iv. an update on progress with the action plan would be reported to the committee later in the year.

The Chairperson drew attention to paragraphs 11-13 of the report (agenda page 127) and, as referenced in a question received from a councillor and the response (Appendix 2 to the minutes), it was noted that the financial threshold required for the publication of a Record of Operational Decision would continue as £50k and any potential change to this threshold in the future would be reported to the Audit and Governance Committee for consideration.

**Resolved:**

**The committee has determined that the Draft Annual Governance Statement, Appendix 1 to the report, reflects the risk environment the council is operating in and that the areas where controls could be strengthened are appropriate.**

(Note: There was a short adjournment before the next item)

## 11. 2022/23 DRAFT STATEMENT OF ACCOUNTS

The Head of Strategic Finance presented the 2022/23 Draft Statement of Accounts, the key points included:

- i. the accounts had been prepared in accordance with the International Financial Reporting Standards (IFRS);
- ii. Herefordshire Council was part of the 30% of local authorities that had published the Draft Statement of Accounts in accordance with the statutory deadline of 31 May 2023 for public inspection and for external audit;
- iii. attention was drawn to the principal sections and to the fact that the document had been streamlined, whilst maintaining compliance with the required standards;
- iv. the external auditor had highlighted additional audit procedures in respect of the valuation of land and buildings and investment properties, and the valuation of pension fund net liability (minute 9 (External Auditor's Draft Annual Plan 2022/23) above;
- v. the council relied upon independent professional expert valuers and actuaries, with the results being subject to internal challenge and external audit testing; and
- vi. the financial outturn position for 2022/23 was an overspend of £5.6 million and this differed to the comprehensive income and expenditure statement as a result of technical accounting adjustments.

On behalf of the committee, the Chairperson thanked the officers involved for the efficient preparation of the Draft Statement of Accounts.

Officers responded to questions from committee members:

1. The Director of Resources and Assurance outlined the principal assumptions used by the actuaries in relation to Pension Fund Liability.
2. The Head of Strategic Finance explained: the setting of a balanced budget by Council in February; the monitoring of performance, with this reported to Cabinet quarterly; the use of the financial resilience reserve; and the consideration being given to reserve balances as part of medium term planning.
3. The Head of Strategic Finance commented on the increase in unusable reserves, principally due to the pension reserve, and confirmed that reserves were monitored throughout the year, with updates provided to Cabinet on the planned use of reserves.
4. The Head of Strategic Finance provided an overview of the sector issue around the accounting for infrastructure assets and the review undertaken during 2022/23 on the useful life of different elements. The work to be undertaken by the external auditor was also outlined.

**Resolved:**

**That the Audit and Governance Committee note the draft, unaudited Statement of Accounts for 2022/23.**

## 12. EXTERNAL AUDITOR'S ANNUAL REPORT 2021/22

The Director and the Public Sector Assurance VfM Specialist, Grant Thornton UK LLP presented the 'Auditor's Annual Report on Herefordshire Council 2021/22', Appendix 1 to the report, the key points included:

- i. The report focussed on the arrangements in place during the financial year 2021/22, with an acknowledgement that various matters had moved on in the intervening period.
- ii. Attention was drawn to the headline auditor judgments (agenda page 271) in respect of the criteria: financial sustainability (no significant weaknesses identified; no improvement recommendations) / governance (no significant weaknesses identified; two improvement recommendations) / and improving economy, efficiency and effectiveness (three significant weaknesses identified in 2020/21 remain).
- iii. Attention was also drawn to the explanatory note on recommendations (agenda page 304) which identified: there were no statutory recommendations; there were three key recommendations; and there were a number of improvement recommendations.
- iv. The level of reserves had been considered as part of the financial sustainability criteria.
- v. In terms of the significant weakness 'Failure to meet the statutory needs of children within its Children's Social Care Services', it was acknowledged that the council had made this its highest priority and was working with the Commissioner for Children's Services on actions to deliver improvements.
- vi. In terms of the significant weakness 'Not effectively contract managing its public realm contract', the report reflected some of the improvements that had been made.
- vii. In terms of the significant weakness 'Continuing to contract with a dormant company', there was a need to document clearly how the council would manage any risk.
- viii. The improvement recommendations for governance (agenda pages 286 – 287) included a suggested single record of all external regulator and internal audit priority recommendations, and suggested consideration of the appointment of independent members to the Audit and Governance Committee.

The Director commented that the appointment of independent members was good practice, particularly to address any gaps in skills and to provide further challenge, but acknowledged potential issues in terms of recruitment. The committee briefly discussed the potential skills and experience required from independent members.

The Chairperson suggested that a report be prepared on the criteria for independent members, with analysis of the situation in similar local authorities. It was recommended that this be added to the work programme for the committee for its September 2023 meeting.

- ix. The improvement recommendations for improving economy, efficiency and effectiveness (agenda pages 294 – 295) included the suggested consideration of the County Plan 2020-2024 and its supporting delivery plan to ensure they take

account of the Children's Services Improvement Plan, and a suggested review of the governance arrangements for Hoople Ltd.

- x. Attention was also drawn to the follow-up of previous key recommendations (agenda pages 296 – 300).

The committee discussed elements of the annual report, the principal points included:

1. Further to point vii., there was a discussion about the position with Balfour Beatty Living Places and it was confirmed that, informed by internal and external legal advice, the council was satisfied with the arrangements and with the documentation provided.
2. Further to point v., the Public Sector Assurance VfM Specialist commented on the reliance upon the evidence provided by the Commissioner for Children's Services.
3. Further to point vi., the Public Sector Assurance VfM Specialist noted that improvements had been made to procurement and contract management arrangements during 2022/23 and effectiveness would be tested.
4. Further to point viii., the Head of Strategic Finance commented on the potential to consider how priority recommendations were presented to the committee.
5. It was questioned whether the workforce strategy should be included in the work programme for the committee. (Note: see minute 14 (Work programme) below)

**Resolved:**

**That the committee has reviewed the external auditor's report, has noted its findings and recommendations, and has considered the management responses.**

### **13. WHISTLEBLOWING POLICY**

The Head of Legal Services and Deputy Monitoring Officer reported that the Whistleblowing Policy had been updated in response to recommendations made at previous meetings ([minute 57](#) and [minute 78](#) of 2022/23 refer). At the request of the committee, further time had been provided to the unions to respond to a consultation on the policy and Unison had now confirmed that it had no concerns with the policy. It was also reported that internal audit had undertaken a review of the existing policy and a final report was awaited.

The key points of the discussion included: the function of the committee to review and agree periodic updates to the policy; the scope of the policy; statistics in relation to staff retention subsequent to the raising of a concern may not be available given the anonymous reporting of some concerns; and the circumstances where a concern might be reported to the police or other appropriate agency by the Monitoring Officer.

**Resolved:**

**That the revised Whistleblowing Policy and associated guidance, set out at Appendix A to the report, be agreed.**

### **14. WORK PROGRAMME**

The work programme for the committee for 2023/24 was considered.



Further to point 5. in minute 12 above (External Auditor's Annual Report 2021/22), the Head of Strategic Finance advised that a paper on 'Review of the Human Resources and Workforce Strategy' had been considered by the Scrutiny Management Board at a meeting on [17 January 2023 \(link\)](#) and that it may feature in its future work programme.

It was noted that the work programme could be adjusted during the year and members could identify any potential items of further business to the Chairperson.

**Resolved:**

**That the work programme for the Audit and Governance Committee be agreed.**

**15. DATES OF FUTURE MEETINGS**

Meeting dates for the remainder of 2023/24 were noted and, with an adjustment to the September 2023 meeting date, agreed as follows:

[Monday 31 July 2023 10.00 am](#)

[Wednesday 27 September 2023 3.00 pm](#)

[Tuesday 24 October 2023 2.00 pm](#)

[Tuesday 28 November 2023 2.00 pm](#)

[Tuesday 30 January 2024 2.00 pm](#)

[Tuesday 26 March 2024 2.00 pm](#)

[Tuesday 21 May 2024 2.00 pm](#)

The meeting ended at 12.30 pm

**Chairperson**



**Agenda item 5 – Questions from members of the public, plus supplementary question and response**

**Public Question 1**

**From: Mr Parkinson, Hereford**

Current Whistleblowing Policy states (5.5.30):

'if you feel that the matter is so serious that you cannot discuss it with any of the above, please contact the chief executive at Herefordshire Council, internal audit or the monitoring officer at Buckinghamshire Council'

However, the proposed revised Whistleblowing Policy does not give potential whistleblowers the option to contact the monitoring officer of another council (5.7) this discourages potential whistleblowers raising concerns.

Including the option to contact an external monitoring officer would encourage whistleblowing.

Many professionals should raise concerns. For example, the Professional Standards of social workers (England) includes Section 6: Promote ethical practice and report concerns. A section in the policy highlighting this would encourage potential whistleblowers to speak.

Will the Committee recommend my suggested amendments to the revised Whistleblowing Policy?

**Response to Public Question 1**

Our view is that the option to make a referral to another council's monitoring officer is no longer needed as far better options have been provided within the revised policy. They allow the worker to make a referral to their manager, the head of service, their director or the Monitoring Officer. In addition, the worker can make referrals to a number of third party prescribed bodies and the policy includes links to the full list of such bodies that is maintained by the Government. In addition, if workers remain uncomfortable or unsure about these extensive arrangements or they need assistance or guidance, then the policy refers to support that is available from Protect [protect-advice.org.uk](https://protect-advice.org.uk) who are an independent national whistleblowing charity. Protect are able to advise and signpost the worker and they provide a 5 days a week confidential advice line to whistleblowers.

In relation to referrals from professionals, the Council treats all worker referrals the same irrespective if they have a professional status and the policy applies to all with equal effect. Professionals are aware of their individual obligations of their professional bodies and we do not consider an amendment to be needed.

**Public Question 2**

**From: Ms Reid, Hereford**

The draft Statement of Accounts 2022/23 (Accounts) states (page 10):

"The £9.6 million overspend in Children and Young People reflects the significant pressures facing the Directorate in respect of increases in unit cost prices, inflation and rising demand for placements and transport services in 2022/23."

## Audit and Governance Committee, 23 June 2023

However, the latest Local Authority Interactive Tool (LAIT) statistics (31/3/2022) show that the rate of children in care in Herefordshire was about twice that of its Statistical Neighbours' average (number since increased).

Per FOI2022/01890 the average weekly costs for each child in care were (12/1/23):

- Fostering: £315
- Fostering agencies: £890
- Children's homes: £5,066

The net base budget for 2023/24 for Looked-After Children is over £28.7 million (Cabinet meeting, 26/1/23).

Should the Accounts be amended to mention that the high rate/number of Looked-After Children in Herefordshire was a major contributor to the Directorate's overspend in 2022/23?

### Response to Public Question 2

The council's accounts are prepared in accordance with proper accounting practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code), supported by International Financial Reporting Standards.

All expenditure transactions in respect of Children's Services during the year have been included in the accounts and these will now be subject to testing by external audit as required by the Accounts and Audit Regulations 2015. The Audit and Governance Committee is confident that the external auditors are fully aware of pressures in Children's Services and will focus an appropriate amount of attention on the recording of expenditure in this area.

The council is required to include a narrative report which provides summary information about the financial position and performance during the year.

The report summarises the key pressures facing the Directorate and these include increased demand in 2022/23. A final version of the accounts will be published following completion of the statutory audit by the council's external auditors.

### Supplementary question a)

The Statement of Accounts 2022/23 includes (page 15):

"The council's Looked After Children (LAC) population is higher than our statistical neighbours and continues to require significant resources to support."

I think "is considerably higher" would be a truer statement.

"Sufficiency strategy" (ie enough foster placements etc) is on the Corporate Risk Register (30/1/23, A&G meeting). Of course, if the number of children in care is reduced, sufficiency is mitigated.

Actions to reduce the number of children in care include by investing in:

- Early Help
- Reunification of children with families
- Family Group Conferences

And they accord with the law and good practice.

Early Help is under-resourced (Cabinet meeting, 22/6/23) yet the average cost of one child in care (fostering agency) for a year is over £46,000.

Should the “Further actions required” on the Corporate Risk Register be updated to include Early Help etc?

**Response to supplementary question a)**

Thank you for your question, we are very much aware of your concerns in this area in the council. As we move forward, looking at the risk register, we will take your comments into account and meanwhile I will make sure that the Corporate Director, Children and Young People is aware of your concerns.



**Agenda item 6 – Questions from Councillors**

**Councillor Question**

**From: Councillor Liz Harvey**

The Governance Statement reports that a 5x increase has been made in the financial threshold above which the record of officer decisions (RoOD) are made public. This increases the minimum from £50,000 to £250,000.

I have asked the Leader and Officers upon whose authority this change has been agreed, and under what powers officers have made this change. I have been advised that no decision was taken by any cabinet member and that officers consider this decision to be 'technical' and are relying upon the delegation given at Annual Council in 2022 for them to make minor technical changes (formatting, spelling, legal) to the constitution.

This is not a technical change. It reduces the transparency of the operation of this council and I request that the committee consider whether this decision has been properly taken and whether this change has been properly made.

**Response to Councillor Question**

Thank you for your question. As you know this has been discussed over recent days. It has been agreed following those discussions that the financial threshold for the record of officer decisions will continue as £50k. If going forward this needs to be increased then officers will bring a paper to Audit and Governance for our consideration. Thank you once again for raising this issue.

