

## **Minutes of the meeting of the Audit and Governance Committee held in Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Tuesday 11 June 2024 at 2.00 pm**

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

Others in attendance: R Bamberger (Director of Continuous Improvement), R Hart (Head of Strategic Finance), A Lovegrove (Director of Resources and Assurance), J Preece (Democratic Services Officer), A Probert (Principal Auditor, South West Audit Partnership), Pete Stoddart (Cabinet Member Finance and Corporate Services) and J Tranmer (Chief Accountant)

### **95. APOLOGIES FOR ABSENCE** FIELD\_PAGE\_RANGE

Apologies were received from Councillor Bartrum.

### **96. NAMED SUBSTITUTES (IF ANY)** FIELD\_PAGE\_RANGE

Councillor Polly Andrews attended the meeting as a substitute member for Councillor Bartrum.

### **97. DECLARATIONS OF INTEREST** FIELD\_PAGE\_RANGE

No declarations of interest were made.

### **98. MINUTES** FIELD\_PAGE\_RANGE

#### **RESOLVED:**

**That the minutes of the meeting held on 26 March 2024 were confirmed as a correct record and signed by the chairman.**

### **99. QUESTIONS FROM MEMBERS OF THE PUBLIC** FIELD\_PAGE\_RANGE

No questions had been received from members of the public.

### **100. QUESTIONS FROM COUNCILLORS** FIELD\_PAGE\_RANGE

No questions had been received from councillors.

### **101. APPOINTMENT TO STANDARDS PANEL** FIELD\_PAGE\_RANGE

The Chair of Audit and Governance introduced the report the main purpose of which was to appoint two members from the Audit and Governance Committee as standing members on the Standards Panel and two substitute members.

**RESOLVED:**

**In relation to the Standards Panel, the Committee:**

- a) Noted the appointment of the Chair of Audit & Governance,**
- b) Appointed Brian Jones (Chairman of Lea Parish Council) as the Parish Council representative under recommendation by HALC;**
- c) Appointed Councillors Hamblin and Highfield as standing members; and**
- d) Appointed Councillors Cornthwaite and Oliver as substitute members.**

**102. DRAFT ANNUAL REPORT OF THE AUDIT COMMITTEE FIELD\_PAGE\_RANGE**

The Democratic Services Officer introduced the report and highlighted an amended version of the Draft Annual Report of the Audit and Governance Committee (Appendix A) was published as a supplement to the agenda.

It was explained that this was the first annual report of the Audit & Governance Committee which summarises the work of the committee during the last municipal year.

The report had been introduced as a recommendation from the LGA and is already being produced by many other council's. It would provide a visible demonstration of how the committee is fulfilling its role and compliments the council's objectives of being open and transparent.

The committee were invited to agree the draft report and highlight any adjustments they wished to make before it were published on the council's website.

In response to committee questions, it was noted

1. The Chair of the committee would obtain a response from the Chief Executive with regards to officer's response times not meeting the requirement of within 5 working days.
2. The Cabinet member finance and corporate services explained that as part of Thrive's transformation programme they were working towards making the website more user friendly, viable and transparent. He confirmed he would address the issues with ICT as a priority to be resolved as soon as possible.

**RESOVLED:**

**The Committee considered and agreed the report be published on the Councils website.**

**Action(s)**

2023/24-027 The Chair of Audit and Governance to follow up on officer's response times and not meeting the requirement of within 5 working days.

2023/24-028 The Cabinet member finance and corporate services to address the council's website issues with ICT as priority to be resolved as soon as possible.

2023/24-029 The Chair of Audit and Governance to circulate the link to the Annual Report to all councillors.

**103. DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24 FIELD\_PAGE\_RANGE**

The Head of Strategic Finance (HSF) presented the draft Annual Governance Statement (AGS) for 2023/24, the key points included:

- The AGS is a document that the Council is required to publish as part of the council's statutory accounts and is a retrospective document which reports on the effectiveness of the governance arrangements and the internal controls that have been in place during the year ended 31st of March 2024.
- The report is prepared by reference to the seven core principles of good governance as identified by CIPFA, and the statement identifies the arrangements and activities that have been in place during the year, as well as areas where the council's arrangements could be strengthened. These areas will form an action plan and an update on the progress in delivering those actions will be presented to this committee in late autumn.
- The report is informed by director Assurance statements, a review of compliance with laws and regulations and the work and opinion of both internal and external audit.
- The document will be tested by Grant Thornton, as part of their audit work and the final version will be brought to this committee at the meeting in September.

The Cabinet member for Finance and Corporate Services (CMFCS) and the Chairperson expressed their gratitude to the Director of Resources and Assurance, Head of Strategic Finance and their team for their collaborative efforts and hard work ensuring the production of the accounts on time.

In response to committee questions, it was noted;

1. It was explained that Improvements to governance arrangements for council business ventures as included at [page 42](#) was referring to the arrangements through the shareholder committee and the council's governance in respect of those shareholdings.
2. The HSF would consider the wording currently used with regards to Political Groups Consultations and whether there was an opportunity for the arrangements to be strengthened as referred to on [page 42](#).
3. The HSF to consider the wording used with regards to "positive risks" as referred to on [page 45](#).
4. In relation to loss of corporate knowledge it was explained that this was a key consideration for the corporate leadership team through the workforce strategy. The CMFCS assured the committee that knowledge had not been completely lost and that colleagues had been encouraged to record processes and procedures prior to their departures.
5. It was explained that the report takes each of the [seven core principles](#) and outlines what activities are currently in place and identifies those areas where arrangements could be improved. These are include in an action plan with specific tasks and an owner for each activity identified. This plan will be presented to this committee to be monitored in future periods.
6. The inclusion of interactive links similar to those included within the council's delivery plan to be included within the action plan would be explored.
7. In terms of the activity that is taking place during the year, the council's external auditors review this document and the updates provided by the council on each activity and confirm that they believe this is accurate throughout the year.
8. The CMFCS was comfortable with the approach to strategic risk and thought it was logical, sensible and worked well. With the departure of the current lead officer, it would provide an opportunity for it to be readdressed once the new director was in post.
9. The HSF explained that the council receives funding for schools via the dedicated schools grant (DSG) and that there was an increasing gap between

the amount allocated and the amount required linked to increasing demand and complexity of need. The DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument which will remain in place up to March 2026; beyond the period of the statutory override, any balance on the DSG unusable reserve will transfer back to the council's Earmarked Reserves. The deficit currently sits at 6.1 million. The council is committed to identifying actions to mitigate the DSG deficit, through the Deficit Management Plan, to reduce the potential impact on the council's overall financial position. It is managed as part of the medium term financial strategy risks and it is monitored on a monthly basis by financial budget monitoring and reported to cabinet quarterly. External auditors have also been monitoring as part of their value for money (VFM) work.

10. The HSF explained that usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. Unusable reserves arise as a result of statutory or accounting adjustments and cannot be used for expenditure on services.
11. It was highlighted that this was a national issue and that Herefordshire was in a much better position in terms of the deficit compared with other local authorities. It was noted that Herefordshire were collaborating with other councils, sharing knowledge and experience and within children's services.

## **RESOLVED**

**That:**

- a) **the committee determined the draft annual governance statement in Appendix 1 properly reflected the risk environment the council is operating in and that areas where controls could be strengthened were appropriate.**

## **Action(s)**

2023/24-028 The HSF to consider the wording currently used with regards to Political Groups Consultations as referred to on [page 42](#). and "positive risks" as referred to on [page 45](#).

## **104. 2023/24 DRAFT STATEMENT OF ACCOUNTS FIELD\_PAGE\_RANGE**

The Head of Strategic Finance (HSF) presented the 2023/24 Draft Statement of Accounts, the key points included:

- The accounts had been prepared in accordance with the International Financial Reporting Standards (IFRS) and our compliant with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of Practice.
- Herefordshire Council were amongst a small group of unitary authorities that had published the Draft Statement of Accounts in accordance with the statutory deadline of 31 May 2023 which presents the position and performance of the Council for the year ended 31st of March 2024.
- The financial outturn position for 2023/24 as reported to cabinet on the 16th of May, was an overspend of £8.7 million.
- 81% of the council's land and building assets had been revalued in the year through external valuers in line with the councils rolling programme.
- 100% of investment assets had been valued in the year which was a requirement by international standards.

- The accounts would now be subject to external audit testing. It was noted that additional resource had been identified by the external auditors and the audit had started three weeks earlier than anticipated and would hopefully support a timely audit opinion to be brought to this committee in September in line with the statutory audit deadline.

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

In response to committee questions, it was noted

1. The HSF explained the process and procedures for valuing council properties.
2. The Cabinet member for Finance and Corporate Services (CMFCS) advised the committee that an improvement recommendation had already been put forward to include the value of 100% in each case against the gross funding and income 2023/24 and gross expenditure 2023/24 pie charts as detailed on [page 60](#). An explanation of the correlation between the two pie charts would also be provided.
3. It was explained that the purpose of the narrative report on [page 58](#) is considered best practice to provide background for the user of the accounts of the Council and its operations throughout the year including its leadership and political structure.
4. The HSF explained that the [high risk areas](#) are those which are subject to volatility throughout the year and by reference to last year's outturn report, those areas where there were significant budget variances are looked at and informs the allocation of the councils resources and reporting of risk through the monthly financial monitoring.
5. The HSF would provide the committee with a written explanation of the decrease in Surplus/ deficit on the provision of services as recorded at 32.6m in 2022/23 to 7m in 2023/24.
6. The CMFCS explained each cabinet member had taken ownership of their own portfolios to work with officers to highlight any areas they think could be cut in order to make savings.
7. The movement in unusable reserves as referred to on [page 115](#) were explained.
8. The HSF explained that there is an accounting standard that governs the classification of council assets. Property, plant and equipment represents the council's operational assets and property for rental income purposes are classified as Investment property.
9. The HSF in relation to pooled budgets as referred to on [page 92](#), would provide the committee with a written explanation of how the consolidated children's services budget of 1.5m is funded.
10. The HSF would provide the committee with a full breakdown of where the £8.7m overspend was funded from.
11. The CMFCS confirmed that the general reserves had been maintained and it was their plan that they would continue to increase this year to an even better position.
12. In order to mitigate negative public perception, a simplified set of statements had been published this year alongside the statutory document which was hoped would provide a more user friendly document, alerting users and residents to a snapshot of the Council's position and performance.

## **RESOLVED**

**That:**

- a) **The Audit and Governance Committee noted, and commented on the draft, unaudited Statement of Accounts for 2023/24.**

Action(s)

2023/24-029 The HSF to provide the committee with a written explanation of the decrease in Surplus/ deficit on the provision of services as recorded at 32.6m in 2022/23 to 7m in 2023/24.

2023/24-030 The HSF to provide the committee with a full breakdown of where the funding came from to cover the council's overspend of £8.7m

#### 105. INTERNAL AUDIT UPDATE REPORT QUARTER 1 2024/25 FIELD\_PAGE\_RANGE

The Principal Auditor (PA), South West Audit Partnership (SWAP) introduced the report, the following principals point were noted;

- No high organisational risks have been identified.
- Three limited assurance audits had been identified, full reports were located on pages [183 to 185](#).
- Fourteen priority two findings had been identified.
- Since the last update, good progress had continued to be made with the audit plan. Eleven audits had been completed, 8 audits were in progress and one of those is at draft report stage.
- The indicative opinion was of reasonable assurance, with a sound system of governance, risk management and control in place.

In response to committee questions, it was noted;

1. The PA advised the committee that she had, had discussions with the Director of Transformation, PMO and Corporate Support and she was keen to see audit work completed in the early stages of projects rather than the end and for there to be assurance around the project management office (PMO) processes. These would be built in to the rolling plan moving forward.
2. The PA explained that It was in agreement between the Director of Resources and Finance and SWAP that the audit on the sampling of Hereford Enterprise Zone (HEZ) sales receipts still be progressed with what had been provided to date rather than delay any audit findings being completed. SWAP had been asked to revisit this and undergo more testing to provide more assurance around the sales which would be reported back to the committee as supplementary report.
3. The Service Director for Economy and Growth (SDEG) advised the committee that the HEZ board had not yet disbanded but it was going through a process of reconciling down the scale of the board as most of the work of the HEZ had been completed
4. The specific roles and responsibilities undertaken by the HEZ and the Council were explained and the committee were advised that the HEZ Board was still currently in operation but likely to be scaled down in size and scope as most plots had now been sold.
5. The SDEG explained that in general the approach and model used for the HEZ worked well and that they would look to replicate that with the Ross Enterprise Park development but to include a greater clarity around the terms of reference of the board with regards to roles and responsibilities at different stages.
6. It was explained the locating of individual plot information and land sales had been difficult due to the change of processes and procedures over a ten year period.
7. The SDEG emphasised SWAP's findings with regards to the DBID and that the Council would look to improve co-ordination and that lessons would be learned from previous bids.
8. The PA provided the committee with assurance surrounding the two large organisations that had been making national news, that she were confident

- through communications between the council officers, information sharing, risk registers, whistleblowing arrangements and having a strong fraud team that the Hereford Council would not find themselves in a similar position.
9. The Director of Continuous Improvement (DCI) explained how and when an audit is triggered to in progression.
  10. The DCI explained that SWAP covers as many strategic risks that the council faces as possible, or at least those strategic risks that are documented and corporate priorities. He is keen to see the risk management refreshed and reinvigorated so those strategic risks are an accurate reflection of the top risks Hereford faces.
  11. The PA would provide context with regards to the scale of transactions made in relation to procurement cards and this would be provided on all reports moving forward.

## **RESOLVED**

**That the committee:**

- a) reviews the areas of activity and concern and be satisfied that necessary improvements are outlined and delivered; and**
- b) note the report and consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary.**

Action(s)

2023/24 031 The Service Director for Economy and Growth to circulate the latest reports for the HEZ and DBID.

2023/24 032 SWAP to submit an amended report on HEZ once further work has been completed.

### **106. INTERNAL AUDIT ANNUAL OPINION 2023/24 FIELD\_PAGE\_RANGE**

The Director of Continuous Improvement (DCI) for South West Audit Partnership (SWAP) presented the report on Internal Audit Annual Opinion 2023/24. The purpose of the annual report was outlined; attention was drawn to Appendix A - Internal Audit Annual Opinion 2023/24. The following key areas were highlighted:

- There were no 'High' residual organisational risks that had been identified throughout the year.
- There were no instances of material risks throughout the year where management did not accept the need for mitigating action.
- SWAP is providing insight and support in relation to the development of the risk management framework, based on their experiences in other local authorities.
- Following the departure of several of the councils corporate performance team , SWAP will now provide reporting and updates with regards to "following up on agreed actions", utilising AuditBoard to provide a live view to key council stakeholders of all outstanding audit actions across the authority.
- In relation to customer satisfaction questionnaires, 17 had been returned (a return rate of 74%, from the 23 issued), feedback was strong; especially in relation to SWAP'S professionalism and conduct.

In response to committee questions, it was noted:

1. The DCI explained the process for issuing and obtaining customer satisfaction surveys.
2. The DCI explained that not all audits will have a one to one relationship, but they would still try and make linkages where possible. Swap link all their work to the key risks and priorities, however will undertake other audits if and when requested to do so.
3. The DCI provided the committee with assurance that all past actions had been provided by the performance team and that they were currently being loaded on to their Auditboard system. It was noted that some of these actions were historic and work would be carried out to identify those actions that were no longer required or no longer relevant. Swap would be provide the committee with an update at the meeting in July.
4. The DCI explained that normally a risk would be identified on one of the councils risk registers and there would be mitigating actions in place, where a risk is not recorded of no mitigating controls in place, SWAP would produce a list of expected controls to mitigate that risk. SWAP would formulate Audit tests to test each one of those controls and then give a view on the effectiveness.
5. The DCI explained that the Annual Opinion 2023/24 is retrospective and that it should be noted that the authority's strategic risk register was significantly updated in March 2024. Therefore SWAP had provided a coverage assessment against the risks that appeared on the strategic risk register throughout 2023/24. The risks removed in this refresh had been prefixed with "Deescalated" in the Year-end assessment of internal audit coverage mapped to strategic risk as listed on [page 199](#).

#### **RESOLVED**

**That the committee:**

- a) **noted the report and considered the assurance provided by the annual opinion report.**

#### **107. WORK PROGRAMME FIELD\_PAGE\_RANGE**

The committee's updated work programme was presented, 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 updated work programme was agreed.**

#### **108. DATES OF FUTURE MEETINGS FIELD\_PAGE\_RANGE**

The meeting dates for the remainder of 2024/25 were noted and agreed as follows:

Tuesday, 23 July 2024 2pm  
Tuesday, 24 September 2024 2pm  
Tuesday, 29 October 2024 2pm  
Tuesday, 28 January 2025 2pm  
Tuesday, 25 March 2025 2pm  
Tuesday, 10 June 2025 2pm

The meeting ended at 15:55.

**Chairperson**